REPORT

OF THE

COMMITTEE ON CO-OPERATION IN MADRAS

1927-28

MADRAS
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REPORT OF THE COMMITTEE ON CO-OPERATION IN MADRAS—1927-28.

CHAPTER I.—PRELIMINARY.

1. The Government of Madras in G.O. No. 1366, Press, Development, dated the 1st September 1927, announced their decision to appoint a committee to enquire into the present state of the co-operative movement in the Presidency : they stated that the decision was influenced by resolutions tabled in the Madras Legislative Council, by a demand voiced in the local press, and by a resolution passed by the Fourteenth Madras Provincial Co-operative Conference. The decision also accorded with a recommendation of the Registrar of Co-operative Societies.

The Committee consisted of the following :—

(1) C. A. H. Townsend, Esq., C.I.E., I.C.S.	*President.*
(2) R. H. Ellis, Esq., I.C.S.	*Members.*
(3) E. P. Stocker, Esq., Agent, Imperial Bank of India, Calicut.	
(4) The Hon'ble Mr. V. Ramadas Pantulu, B.A., B.L., Member, Council of State, and President, the Madras Central Urban Bank, Limited.	
(5) M.R.Ry. G. K. Devadhar Avargal, M.A., C.I.E., President, Provincial Co-operative Institute, Bombay.	
(6) M.R.Ry. Rao Bahadur T. A. Ramalinga Chettiyar Avargal, B.A., B.L., High Court Vakil, Coimbatore.	
(7) K. T. Paul, Esq., B.A., O.B.E., General Secretary, Young Men's Christian Association	
G. H. Cooke, Esq., M.C., I.C.S.	*Secretary.*

The following were the terms of reference :—

(1) to examine the progress made in the co-operative movement in this Presidency since the Maclagan Committee's report ;

(2) to enquire into the present position and lines of development of the movement and to make recommendations ;

(3) to examine the practice and organization of the financial system and to make recommendations ;

(4) to make recommendations in regard to propaganda, supervision and control of societies and finance ; and

(5) to examine the position in regard to co-operative distribution, production and sale and to make recommendations.

2. The President reached Madras on September 8th, his office having been opened a few days earlier. The other members of the Committee arrived at varying dates later in the month. A questionnaire was issued on September 19th to a large number of officials, non-official gentlemen interested in the movement, and co-operative institutions throughout the Presidency, and it was after consideration of the replies received to it that the gentlemen and institutions asked to give oral evidence before the Committee were selected. To central banks a supplementary questionnaire on points relating to the details of their working was also sent. They will both be found in appendices I and II. At the end of September the Registrar of Co-operative Societies (referred to later as the Registrar) was examined. During the greater part of October and November the Committee was on tour throughout the Presidency, visiting more than half the districts in it. In each of these districts, and in Madras itself, co-operative institutions of all kinds, ranging from primary societies to the Madras Central Urban Bank (known as the M.C.U.B.), were visited by members of the Committee, who examined in detail the actual working of the organizations. To this examination, particularly the working of primary agricultural credit societies, much importance was attached. And at convenient centres, and in Madras itself, oral evidence was taken of the gentlemen referred to above, the evidence of witnesses belonging to districts not visited by the Committee being taken in adjoining districts. The oral evidence of 123 witnesses was taken and 129 co-operative organizations were inspected on the spot. At the beginning of December some members visited Mysore State to study the working of the Co-operative Department there. On their return the Committee devoted itself to the consideration of its conclusions, on which much previous informal discussion, both oral and by circulation of notes, had taken place.

The Committee considered the desirability of printing the evidence both written and oral submitted to it, but, by a majority, decided against the proposal on financial grounds.

Chapter II.—Past and Present.

3. *Progress up to* 1915.—The Maclagan Committee submitted their report in 1915, and in our terms of reference we are instructed to examine the progress made in the co-operative movement since that date. But, to render this report complete, it is necessary to make brief reference to the gradual development of the movement before that year, the developments subsequent to it being dealt with in greater detail.

4. As the Maclagan Committee say in paragraph 3 of their report, the Madras Government was the first to grasp the possibilities of a co-operative movement in India, Mr. (now Sir) Frederick Nicholson having been placed on special duty by that Government in 1892 to study the theory and practice of agricultural and other land banks in Europe, and to suggest means by which a similar movement might be popularised in India. In 1897 and 1899 Mr. Nicholson issued exhaustive reports on the systems prevalent in Europe, which, though now to some extent out of date, still constitute invaluable sources of information regarding European practices.

The first purely co-operative society in the Presidency was registered on August 30th 1904, the first Registrar, the late Sir P. Rajagopala Achariyar, having assumed charge of his office a month earlier. Progress was at that time slow, more attention being rightly paid to quality than to quantity. The Registrar personally supervised and inspected every society and sanctioned all loans. He also personally trained his small staff. On June 30th 1907 (the co-operative year ends on June 30th), the number of societies had grown to 63 with 6,439 members: on June 30th 1912 we find 972 societies with 66,156 members: on June 30th 1915 the corresponding figures are 1,600 societies with 118,726 members. Of these 1,446 were agricultural credit societies: the remainder were nearly all urban credit societies. The working capital of these 1,600 societies was Rs. 142·10 lakhs. For the first few years after the birth of the movement Government helped to finance it: but this soon ceased. To assist in financing co-operative societies the M.C.U.B. was registered in October 1905 as a feeder bank, whose function was to finance co-operative societies throughout the Presidency: indeed the bank could lend money only to such societies. For the first decade of its existence it consisted of only individual shareholders. In addition to the financial help given by the M.C.U.B. societies obtained a small amount of money from share capital and deposits. In 1909 the formation of district central banks was found necessary, and two such were constituted in that year.

They were generally identical in principle and working with the M.C.U.B.: their object was to finance rural and urban societies: their shareholders were all individuals, and the activities of each were confined to one district. They were supposed also to 'inspect' co-operative societies, but their by-laws contained no provision for either inspection or supervision. Until recently indeed no distinction has been drawn between these two terms, and to this much of the present difference of opinion on these important matters is due. To these banks the loans originally advanced by the M.C.U.B. to societies in their districts were transferred.

A new variety of central bank known as a 'banking union' came into existence in 1912, in the Madura-Ramnad Central Bank, which had both individuals and societies as shareholders. It also had as its object not only the finance but also the supervision and control of affiliated societies. Three more similar banks were registered before 1915, and yet another which confined full membership to societies and admitted individual shareholders only under certain restrictions.

The societies affiliated to the earlier banks had meanwhile been agitating for admission to them as shareholders, and by 1915 all banks save two had thrown open their membership to societies as well as individuals.

The importance of these banks in financing co-operative institutions is shown by the fact that of the total working capital of agricultural societies, which amounted to Rs. 64·55 lakhs on June 30th 1915, about Rs. 50 lakhs had been provided by central banks.

The troublesome question of supervision forced itself prominently into notice about 1910, as societies had become too numerous for the Registrar and his staff to supervise. It had also been found impossible for one central bank to supervise satisfactorily the numerous societies scattered over the large area of a district. As a result the first supervising union of societies was registered in 1910. Its membership was confined to co-operative societies within a radius of seven miles, and its object was the supervision of its affiliated societies: the then Registrar, in the concluding words of the letter with which he forwarded the proposal to register the union to Government, said 'an ultimate advantage of these unions will be that, when they are started close together, the State may withdraw from the work of supervision, confining itself to audit work'. Towards its expenses the M.C.U.B. agreed to set aside one-thirtieth of the total interest due on loans granted to the societies affiliated, and also expressed its strong disapproval of any proposal that the district bank should exercise supervision over primary societies. But it should be remembered that at that time the bank was entirely composed of individual shareholders. Its composition is now different,

as is stated elsewhere: society shareholders have to a very large extent replaced individual shareholders, and the views of the bank on this question of supervision have, we are informed, changed. Two more unions followed in 1911. But, as shown above, the earlier banks were supposed—though it was not laid down in their by-laws —to 'inspect' societies, and those which were formed on the model of the Madura-Ramnad bank in 1912 and 1915 had among their definite objects the 'supervision' of affiliated societies. Both systems of supervision by banks and supervising unions developed side by side, and on June 30th 1915 there were, excluding the Madras Provincial Co-operative Union, 19 supervising unions, and 10 central banks working in the Presidency. Six of the former had not actually started work; some of the latter, in addition to the unions, were exercising supervision over societies.

The Madras Presidency was peculiarly congenial to the birth of urban credit societies, in that for many years nidhis, or indigenous financing associations, had been in existence, and in many ways the earlier co-operative urban credit societies adopted the methods already in use in them. The first purely co-operative society formed to provide credit to dwellers in urban areas was the Conjeeveram Town Bank in the Chingleput district, which was formed in October 1904. Each succeeding year saw the birth of a few more of these societies, and on June 30th 1915 the number of non-agricultural credit societies was 103, of which 76 were on a basis of limited liability. These 103 societies had on that date a total membership of over 22,000 with a working capital of nearly fifteen lakhs, of which more than 30 per cent had been provided by deposits from non-members and more than 25 per cent by deposits from members.

The first non-credit society formed in the Madras Presidency was the Triplicane Co-operative Stores, registered in 1905: it was soon followed by similar societies at Coimbatore and Madura. Their object was the provision of the more important necessities of life to their members. At the end of the year 1906–07 eight stores had been registered, but, with the exception of the three first mentioned, they were unsuccessful, and five definitely failed and had been wound up prior to 1915. On June 30th 1915 eleven stores societies were in existence, of which the Triplicane Society was the most prosperous. Those at Coimbatore and Madura had experienced considerable reverses in the previous years, but had regained a sound position on that date. A tailoring society was formed in 1907 to purchase raw material and provide work for its members, but failed after a brief existence of three years. More success attended a weavers' union formed at Conjeeveram in 1905, which purchased raw materials for its members and arranged for the sale of their manufactured products; it also introduced improved methods of weaving. During 1914–15 the sales through this union exceeded Rs. 9,000.

The eight building societies formed prior to 1915 achieved but little success, and the same remark applies to the three grain banks which had then been formed.

Between 1912 and 1915 eight societies were formed which had as their main object the purchase of seed, manures and agricultural implements for their members, and under the guidance of the Agricultural Department these societies did useful work though on a limited scale. Other non-credit activities in the early stage of the movement were of but little importance.

Finally, mention must be made of the Provincial Co-operative Union, which was registered in 1913-14 with the general object of assisting co-operative work by every possible means. At its inception both societies and individuals were admitted as members. The union took some time to make real progress: in his report for the year ending June 30th 1915 the Registrar wrote as follows:—

The Madras Provincial Union, which has 124 societies affiliated to it, did some work during the year: the Provincial Co-operative Conference of January 1915 was held under its auspices, and towards the close of the year it was entrusted by Government with the publication of the Madras Bulletin of Co-operation.

So much to show the progress of the movement up to 1915. In the following paragraphs we give more fully the history of the movement after that year. The more important types of co-operative organizations are dealt with separately, and then the more important questions with which they are all concerned.

5. *General progress after* 1915.—The figures used by the Maclagan Committee in their report are, so far as we can ascertain, nearly always those for 1913-14. The following statement shows how great, so far at any rate as figures go, has been the progress made in all phases of the co-operative movement during the past thirteen years in the Madras Presidency:—

Year.	Societies of all kinds.	Individual members.	Central banks.	Total working capital of all banks and societies as shown in Government returns.	Actual working capital in the movement excluding investments of one society in another.	Reserve funds.
				RS. LAKHS.	RS. LAKHS.	RS. LAKHS.
1913-14	1,333	100,537	8	123·21	70·71	6·19
1918-19	3,676	244,297	26	305·21	169·20	14·65
1923-24	9,785	616,628	33	839·27	420·70	38·35
1924-25	11,141	690,740	32	986·57	508·93	46·85
1925-26	11,973	748,783	32	1,132·8	624·35	56·5
1926-27	13,357	830,522	32	1,334·34	727·35	68·54

Of the 13,357 societies existing on June 30th 1927 no less than 11,000 with 583,315 members were agricultural primary credit societies. The remainder consisted of the following :—

Central banks	32
Supervising unions	388
Agricultural societies—	
Societies for purchase and purchase and sale ..	116
Societies for production and sale	16
Societies for leasing lands	258
Irrigation societies	12
Land reclamation societies	9
Cattle insurance societies	4
Non-agricultural societies—	
Credit societies	1,115
Societies for purchase and purchase and sale ..	185
Societies for production and production and sale ..	21
House-building societies	110
Labour contract societies	53
Miscellaneous societies	38

It is interesting to note how far the co-operative movement has reached the people as a whole, giving similar figures for the other provinces of India. The figures worked on are those of 1925–26, the latest year for which figures for all provinces are available. The population figures examined are those of the 1921 census.

On the assumption that a member of a co-operative society represents a family of five people, the following is the percentage of the population touched by the movement in each of the major provinces of India :—

Madras	9·00
Bombay	11·60
Bengal	4·95
Bihar and Orissa	3·20
United Provinces	1·85
Punjab	10·40
Burma	5·55
Central Provinces	5·45

6. *Agricultural primary credit societies.*—Agricultural primary credit societies are by far the most important of all co-operative organizations in Madras, and indeed throughout India: they number now, as has been already said, 11,000 out of a total of 13,357 co-operative organizations of all kinds. Their numbers have progressed steadily every year since 1915, when 1,438 societies of this nature were in existence. Until 1918 some 300 additional societies came into existence every year. In 1918–19 the number of societies in existence increased by more than 800, and every year since then has seen the net addition of between 750 and 1,100 societies: in the

year ending on June 30th 1927 no less than 1,230 societies were added. From these figures the number of bad societies liquidated every year has been excluded.

The 11,000 societies in existence on June 30th 1927 had a working capital of Rs. 489·52 lakhs, of which Rs. 375·56 lakhs had been lent by central banks. The balance was made up almost altogether of share capital, reserve funds, and deposits, Rs. 7·15 lakhs having been deposited with them by members and Rs. 12·68 lakhs by non-members. The comparatively small amount of these deposits is noticeable.

The agricultural primary credit society is the foundation stone on which the whole co-operative edifice is built: if these societies are generally in a good condition, confidence may be felt that the structure is generally sound. But if they are generally unsound, nothing can prevent the ultimate collapse of the edifice, however good parts of the superstructure may be. A detailed account of the village society, as the agricultural primary credit society is usually called, is found in Chapter II of Hemingway's invaluable "Madras Co-operative Manual."

These societies are practically all formed on a basis of contributory unlimited liability, and are composed of a number of agriculturists who unite to obtain credit on their joint security which is of course—this is a co-operative common-place—greater than the separate security of each individual. The membership of a society is generally confined to the residents of one village, or, at the most, of one village and its adjoining hamlets: this is to ensure the local knowledge that is so essential if a co-operative society is to be successful. The Maclagan Committee found the average membership of a village society in Madras to be 62: the present figure is 53. The corresponding figures for other major provinces are—

Bengal	25
Bombay	66
United Provinces	24
Punjab	27
Central Provinces and Berar	15

It will be seen that the membership in Madras is larger than in most other provinces.

The management is in the hands of a 'panchayat', or executive committee, which usually consists of five members to be elected annually by the general body of all members.

The objects of these societies, as shown in the model by-laws, are as follows:—

(1) to borrow funds from members or others to be utilized for loans to members for useful purposes;

(2) to act as the agent for the joint purchase of the agricultural, domestic and other requirements of its members, and for the joint sale of their produce ;

(3) to purchase and own implements, machinery or animals for hire to its members ;

(4) to disseminate a knowledge of the latest improvements in agriculture, handicrafts, and weaving, and encourage its members to adopt them ; and

(5) generally to encourage thrift, self-help, and co-operation among the members.

The first object has certainly been attained: in borrowing money no small success has been achieved by village societies, as is shown by the fact that on June 30th 1927 the total amount of loans outstanding against members of agricultural primary societies was Rs. 4,31,67,854: the corresponding figure on June 30th 1915 was Rs. 57,73,362. Of this very large amount outstanding on June 30th 1927, 49·33 per cent had been advanced on the mortgage of immovable property: 48·44 per cent on the joint personal security of one or more members: and the balance either on the security of deposits (·19 per cent), the pledge of movable property (1·62 per cent) or the simple bond of the borrower (·42 per cent). Unfortunately however many members of primary societies in the Presidency have not yet realized that borrowing involves repaying. This is shown by the following statement of overdues—that is amounts outstanding, though due—on June 30th 1927, and on the same date of each of the five preceding years. With each figure is given, for facility of comparison, the percentage each bears to the total demand for that year:—

	RS.	PERCENTAGE.
June 30th, 1922	37,26,510	31·08
„ 1923	49,61,255	35·96
„ 1924	68,35,671	41·69
„ 1925	84,56,494	41·95
„ 1926	1,07,79,319	46·15
„ 1927	1,21,29,507	45·65

During this period the percentage of interest that remained uncollected also increased, and at the end of 1926–27 46·18 per cent of the demand under that head was overdue. To this important question we return again later.

The extent to which agricultural credit societies achieved the second object laid down in their by-laws is shown by the fact that in the year 1926–27 these societies bought, on behalf of their members, agricultural and other requirements, chiefly ploughs, manure, cattle-food, and domestic necessities, to the value of Rs. 1·58 lakhs and sold, on behalf of their members, produce, chiefly agricultural, to the value of Rs. 1·36 lakhs. These activities were however

confined to only a few of the 11,000 primary societies, the great majority of which did nothing in these matters. But a number of non-credit societies have been formed of recent years, for the joint purchase, sale, and purchase and sale of the requirements and produce of their members. With them we deal later.

In but very few cases have village societies undertaken the purchase of implements, machinery or animals for hire to their members, and the extent to which credit societies have attempted to improve the methods of agriculture, handicrafts and weaving practised by their members is negligible: these functions in some cases are also now being performed by separate societies formed on the non-credit basis.

In the fifth of their objects, the encouragement of thrift, self-help, and co-operation, with a few notable exceptions but little success has been obtained.

Village societies borrow from central banks at about $7\frac{1}{2}$ per cent, and lend to their members at $9\frac{3}{8}$ per cent, though in a few societies, especially on the Malabar coast, a lending rate of $10\frac{15}{16}$ per cent is adopted. The margin thus available with societies for working expenses is smaller than in any other province. On overdue loans a penal rate of interest of $12\frac{1}{2}$ per cent is generally charged, but in a few districts this figure has been raised to $18\frac{3}{4}$ per cent.

The by-laws of all societies lay down that the maximum borrowing power of the society may not exceed a certain figure, which is, as a rule, not more than one-eighth of the total assets in land and cattle of all its members: for this purpose a property statement, showing details of the property held by each member, is maintained, which should be carefully revised every year. Within each society the maximum borrowing power of each individual (which is the same for all members of a society) is also carefully prescribed.

During the year ending June 30th 1927 these societies advanced Rs. 236·58 lakhs to their members for the following purposes in percentages of the total:—

	PER CENT.
For paying off prior debts	37·73
For food and necessaries of life	7·54
For trade	8·58
For house-building	4·14
For cultivation	16·70
For purchase of lands	4·50
For improvement of lands	5·81
For marriages	·96
For other ceremonies	·15

The balance was advanced for various miscellaneous purposes.

Village societies are permitted to pay dividends at a rate not exceeding 6¼ per cent. Some societies pay a dividend, but many do not: this is partly due to the fact that societies are not allowed to include in their divisible profits interest which is overdue. It is however laid down in their by-laws that repayments made by members shall be credited, firstly towards miscellaneous debts due to the society, secondly towards interest, and finally towards principal.

Village societies are now allowed to advance monies to a member in excess of his ordinary borrowing power on the security either of standing crops, up to 40 per cent, or of harvested crops, up to 75 per cent, of their value. In the year ending June 30th 1927 the total amount of such loans was Rs. 6·62 lakhs: in each of the two previous years approximately Rs. 2½ lakhs were advanced on this account.

7. *Urban credit societies.*—In urban areas credit societies have made satisfactory progress since 1915, and the 103 societies of this nature which were in existence in that year had on June 30th 1927 grown to 1,115, of which 225 carried unlimited liability: the members of the latter generally belong either to the same caste or the same profession. The maximum dividend these societies can pay is 6¼ per cent: most societies have regularly paid this. The remaining societies, to which persons of all castes and professions belong, carry limited liability, and can pay dividends up to 9 per cent: many societies pay this dividend regularly. The rate on which these societies borrow money varies from 3 to 7 per cent: the rate on which they lend from 6½ to 9⅜ per cent.

Among these 1,115 societies we find 194 societies for Government servants, 99 for municipal servants and 9 for factory servants. The total membership of urban credit societies is 184,730, with a paid-up share capital of Rs. 52·47 lakhs, and a working capital of nearly 2 crores. Deposits from non-members amount to Rs. 57·29 lakhs and from members to Rs. 46·22 lakhs. The large amount deposited by non-members with these societies is noticeable.

Only 13·49 per cent of the working capital of these societies is composed of loans from central banks. In 1924-25, and 1925-26 the corresponding figures were 16·84 per cent, and 14·32 per cent respectively. The proportion of their total working capital which agricultural primary societies obtain from central banks is very much higher, being 76·77.

The percentage of balance to demand which was overdue on June 30th 1927 was—

Principal	Interest.
PER CENT.	PER CENT.
17·55	23·83

The corresponding figures for agricultural credit societies have been already given, but they are reproduced here for facility of reference. They are as follows :—

Principal.	Interest.
PER CENT.	PER CENT.
45·65	46·18

8. *Societies for the depressed, backward, and similar classes.*—Special societies for depressed classes were found necessary owing to the peculiar conditions in which these classes live. These people reside in separate villages or hamlets, and are still debarred from social intercourse with their caste neighbours. These societies were at first organized by the Young Men's Christian Association, missionaries, and inspectors of the Co-operative Department: on June 30th 1915 six societies, exclusively for Panchamas (members of the depressed classes), were in existence: 5,347 of these people were then members of co-operative societies of all kinds. The corresponding figure now is 87,400.

The first serious official attempt to improve the lot of these poor people was made in 1918, when a Deputy Collector was placed on special duty in Tanjore to purchase house-sites for the Panchamas, for whom such provision was for various reasons found desirable. This officer organized co-operative societies to undertake the responsibility for loans advanced by Government of the money required for purchase of the sites. From this beginning the Labour Department was evolved in 1920. It started its operations in Tanjore and Godavari, and is now working in thirteen districts : from its inception it has attached due importance to the development of the co-operative movement among the depressed classes. Societies were organized not merely for credit work, but for the purchase of house-sites, the leasing of land, more particularly of lankas (islands, more or less permanent, appearing in the beds of rivers) in the delta districts, and the taking of land on assignment from Government. The purchase of house-sites is financed directly by Government, the other activities by the Christian Central Co-operative Bank, and in a very few cases by district central banks. For supervision, which in the case of these societies must be specially intensive, the Labour Commissioner was at first allowed one inspector for every 25 societies, but the scale was reduced in 1925 to one for every 40 societies in districts where the total number of societies exceeded 100 : until that figure was reached the existing scale was allowed to continue. These inspectors are experienced men lent by the Co-operative Department. In seven districts they not only supervise but also audit the societies in their charge. In the remaining six districts audit is conducted by the Co-operative Department. The Labour

Commissioner gave the Christian Central Bank a personal guarantee of intensive supervision as regards the societies it finances, and it was in consideration of this guarantee that the bank agreed to do so.

The results achieved in the earlier years were surprising. In Tanjore up to March 31st 1924 Rs. 3·61 lakhs had been advanced for purchase of house-sites, Rs. 15,279 had been repaid in advance of the due date, and only Rs. 197 was overdue. In other districts the results were equally good. There has been some falling off in these respects in more recent years, partly owing to bad seasons, but these societies still compare favourably with ordinary primary societies. At the close of 1926–27, there were in existence 1,291 societies in charge of the Labour Department with 56,579 members, paid-up share capital of Rs. 3·11 lakhs, and total working capital of Rs. 8·58 lakhs, of which deposits from members amounted to Rs. 12,312. In addition there were in existence 796 societies for these classes in charge, as ordinary societies, of the co-operative department; they had 27,690 members, paid-up share capital of Rs. 1·88 lakhs and total working capital of Rs. 9·17 lakhs, of which members' deposits formed Rs. 11,000. On June 30th 1927 258 of these societies for depressed classes held over 30,000 acres of land, either on lease or assignment, principally in the Guntur and East Godavari districts.

Fishermen form another special class among whom there has been some co-operative development, chiefly through the activities of the Fisheries Department. There are now in existence 118 societies for this class, of which 22 are in charge of the Labour Department. They have in all about 4,000 members and paid-up share capital of approximately half a lakh of rupees.

The most important development of co-operation among criminal tribes has taken place in Madura and Tanjore, where Government have organized a special staff for the reclamation of the Kallars. An attempt to organize co-operative societies for this caste had been made previously in the Madura district. Large sums were advanced out of Government funds to societies formed exclusively of Kallars, but no proper organization was established for their supervision. Consequently within a very short time almost the whole amount became overdue and was considered irrecoverable. The Kallar Reclamation Department was organized in 1922. It took over these moribund societies with their debts and, by dint of careful and constant supervision, was able to ensure, not only the prompt repayment of fresh loans granted to the societies, but even the recovery of a very large proportion of the old debts. There are now 241 of these societies in existence in Madura and 73 in Tanjore, with 23,467 members, and outstandings to Government of Rs. 4·80 lakhs.

Co-operative societies are also attached to the Criminal Tribes Settlements which are established in certain other districts. That at Sitanagaram in Guntur district, which takes a lease of a lanka from Government and borrows from Government for the purchase of plough-bullocks and for other expenses of cultivation, deserves special mention in this connexion.

All these societies were on June 30th 1927 indebted to Government to a total amount of approximately Rs. 7½ lakhs on account of advances made to them.

9. *Loan and sale societies.*—To loan and sale societies we attach greater importance than their mere numbers warrant. As has just been stated some ordinary agricultural credit societies advance, as one of their secondary objects, money on the security of harvested produce. Loan and sale societies are however formed with the primary object of advancing money on such security.

The first of these societies appeared in 1924–25, and 38 were in existence on June 30th 1927. They are of limited liability, and contain both individual and society share-holders. Loans are granted to members only on the security of agricultural produce pledged to the society and placed in its custody: in no case are advances made of more than 60 per cent of the value of the produce pledged, which is stored in godowns either belonging to, or rented by, the society. Government have agreed to advance loans on certain conditions to these societies for the construction of godowns, but only Rs. 5,800 had been advanced on this account up to June 30th 1927. During the last two years, the following amounts were advanced by these societies to their members:—

	RS. LAKHS.
1925–26	2·18
1926–27	2·71

10. *Store societies and trading unions.*—The abnormal increase in prices in the period immediately following the war stimulated the formation of a considerable number of store societies: the eleven in existence on June 30th 1915 had grown to 103 by 1921. But the fall in prices in subsequent years reduced the margin of profit, and this factor, coupled with bad management in many cases, heavy establishment charges, and disloyalty on the part of members brought about the failure of many. By 1923 the number had fallen to 85, and during the next two years no new stores society was registered. The number has, however, increased during recent years: at the close of 1926–27 there were in existence 143 societies classed as stores. Only 86 however of these are stores properly so called.

Practically all are situated in urban areas. The remainder are societies for providing school and college stationery (26 in number), trading unions, and a few societies dealing with cottage industries.

The total working capital in 1926–27 was Rs. 5·71 lakhs: purchases, including stock on hand, amounted to Rs. 24·72 lakhs, and sales to Rs. 21·97 lakhs, and such as did well made a total profit of Rs. 43,000. Others unfortunately made a total loss of Rs. 20,000 during the year. Much of the success of some stores has been due to the fact that Government have allowed corporate bodies such as "devastanams" and colleges to become members: these bodies make very large purchases.

The most successful of these societies is the Triplicane Stores which operates through its 21 branches in Madras City, and whose fame extends throughout India. Its sales during 1926–27 were in value Rs. 11½ lakhs, and it made a profit during the year of Rs. 17,300.

11. *Labour societies.*—Of labour societies, which are formed with the object of taking labour contracts direct, only one was in existence in 1915—the Madras Salt Loaders Society. This society, which was organized in 1913, takes contracts from the Salt Department for loading salt at the Madras depot into railway wagons and barges. After 1919, and particularly in the last three years, a number of these societies has been formed, and at the close of 1926–27 there were 57 in existence with 2,249 members. Members include road makers, wood cutters, cartmen and field labourers. The societies have, during the last five years, executed works valued at over Rs. 10 lakhs, and have secured for their members large profits which would otherwise have gone into the pockets of contractors: but they are handicapped when they have to compete for contracts with professional contractors. Government have drawn the attention of all local bodies to their existence, and have suggested that they should be employed to execute works whenever possible.

12. *Building societies.*—In 1914–15 there were eight building societies in the Presidency: by 1922–23 the number had increased to eighteen. The great difficulty of finding long-term money at a reasonable rate of interest retarded their development: the rates of interest charged had to be sufficiently low, and the period sufficiently long, to allow of repayment by instalments which did not exceed the repaying capacity of the members, and the societies, being unable to obtain money in the open market on suitable terms, had only at their disposal such limited amounts as they could obtain in the form of share capital and deposits.

The first successful method of raising money otherwise was devised by the Coimbatore society in 1918–19. It borrowed half a lakh of rupees from the local municipality at 6¼ per cent and lent

the money to its members at $7\frac{1}{2}$ per cent. The problem had meanwhile been engaging the attention of Government, and in 1922–23 the conclusion was arrived at that financial help from Government to these societies in the shape of loans was not only essential but also proper, as representing a legitimate contribution by Government towards the solution of the housing problem and the relief of congestion in towns. The effects of the decision were immediate, and a large number of these societies, which are confined to urban areas, has been registered each year since then. Their number now amounts to 109, with 3,383 members, and with a total paid-up share capital of Rs. 6·80 lakhs. The total amount of Government loans outstanding with these societies on June 30th 1927 was Rs. $13\frac{1}{2}$ lakhs. The negligible amount of Rs. 8,000 was outstanding overdue. During 1926–27 681 houses were constructed by these societies, and Rs. $5\frac{1}{2}$ lakhs were advanced by them to their members. Government lend monies to these societies at $6\frac{1}{2}$ per cent, and the same money is then again lent by the societies to members at $7\frac{1}{2}$ per. cent. Loans are ordinarily given for twenty years or, with the sanction of the Registrar, for thirty years: they are only sanctioned for the purchase of sites and the construction of new houses. Dividends are paid by the societies on share capital, but they are adjusted to credit of the member's loan account, and are not disbursed in cash.

13. *Irrigation and land reclamation societies.*—Societies for dealing with irrigation were first organized in 1923–24, when four such were formed in the Tanjore district. The number has now risen to twelve, distributed over five districts. They are formed either for the clearance of silt on a co-operative basis from irrigation channels common to a village or group of villages, or for the irrigation of the lands of members by a common pumping installation. No societies with the latter object are yet working. On the average of the last three years the value of work done by societies with the former object is Rs. 1,900 annually.

Land reclamation societies owe their origin to the heavy floods which came down the Cauvery river in July 1924, when large areas of valuable wet lands in the Tanjore and Trichinopoly districts were covered with heavy deposits of sand. The problems involved in the removal of the sand were considered suitable for solution by co-operative methods, and societies for the purpose were formed without delay. Nine such are now in existence. Government provided the funds in the form of takkavi advances to the societies at concession rates, and also supplied nearly six miles of tram lines and over 400 trucks for removing the sand. Up to the end of 1926–27, 614 acres had been cleared, out of a total of 2,482 acres covered by the operations of the societies. The total loans from Government outstanding with the societies on June 30th 1927 was one and a quarter lakhs of rupees.

14. *Weavers' societies.*—The existence at Conjeeveram of the solitary society for the benefit of weavers, which had been organized in 1905, was an incentive to the formation of more societies for this indigent and backward class, and on June 30th 1927 the number of weavers' societies in existence was 52. Their particular object is the improvement of the handloom industry; their general object, the improvement of the economic condition of the weavers by any means possible. For the latter purpose loans can be given to members for any really useful or necessary object: but the former object is that on which they concentrate.

During 1926–27 these fifty-two societies, of which the members are all weavers, dealt in material to the value of about one lakh and a half: they purchased raw material (yarn), gave it to their members to weave, and then sold the manufactured cloth. In 1926–27 such of these societies as did well made a profit of Rs. 3,442, against a loss made by other societies of the same class of Rs. 7,893. The corresponding figures for the previous year are: profit Rs. 3,119: loss Rs. 6,667.

To improve the working of these societies an experienced inspector of the department was recently given training in improved methods of weaving for one year by the Department of Industries. Having completed his training, he was attached to the special officer who is making a survey of the cottage industries of the Presidency.

15. *Agricultural demonstration and supply societies.*—Thirteen agricultural demonstration societies exist: ten however of these are in three districts. Most of them take small amounts of land on lease and cultivate it, partly by ordinary methods, and partly by the improved methods recommended by the Agricultural Department. The results have been in favour of the latter. A few of these societies also make a small profit from the sale of artificial manure, or the hiring of improved ploughs to their members. These articles are also dealt in by twenty societies formed specially for the purpose, and by twenty-six agricultural store societies. During 1926–27 these societies sold to their members about a lakh and a half worth of goods. There also now exist four combined agricultural and industrial societies for hulling paddy, crushing sugarcane, manufacturing jaggery and the like, one dairy society, and 11 milk supply societies. The total working capital of all these societies amounts to Rs. 1·70 lakhs. In 1926–27 one of these societies lost over Rs. 3,000, having lost nearly Rs. 14,000 in previous years: the remainder worked at a profit, which was small in all cases with the exception of one society, which made over Rs. 2,000 profit in the year.

16. *Other non-credit societies.*—About two hundred more co-operative societies also exist, of widely varying activities, which have not yet been mentioned. Fifty-eight societies on a thrift basis, mainly consisting of Adi-Andhras, have accumulated share capital to the extent of Rs. 24,344, and 115 societies for field labourers and fishermen, on the same basis, have a paid-up share capital of Rs. 31,446, and more than Rs. 3,000 as deposits. Among other forms of co-operative activity we find printing societies (6), fishing lease societies (5), cattle insurance societies (4), benefit fund societies (2), and sheep breeding and penning societies (2).

17. *Central banks.*—Mention has already been made of central banks, and how they came into being.

On June 30th 1915 there were in existence in Madras, in addition to the M.C.U.B., which is sui generis and to which reference is made later (from the figures given in this paragraph those relating to that bank are excluded), nine central banks, seven with both individual and society shareholders, and two, those of Salem and Trichinopoly, with only individual shareholders. These two however also soon permitted societies to hold shares in them, and at the present day the paid-up share capital held by society shareholders in central banks exceeds that held by individual shareholders in all save six cases. But in no case do individual shareholders outnumber society shareholders. The general tendency is for the former to decrease in numbers, as additional shares are taken up by new societies.

How central banks came to supervise primary societies in some degree has already been related. After 1915 other supervising organizations (unions and federations), of which accounts are given later, came into existence. But some banks, at any rate, maintain that the supervision of primary societies is among their functions.

The following statement shows the growth of central banks in recent years :—

Year. (1)	Number of banks in existence. (2)	Share capital. (3)	Deposits and other borrowings (including overdrafts). (4)	Reserve fund after audit. (5)	Total working capital. (6)	Book profit. (7)
		RS.	RS.	RS.	RS.	RS.
1920-21 ..	32	18,82,358	1,41,18,874	2,97,440	1,62,29,939	2,06,333
1921-22 ..	32	24,11,199	1,83,63,486	4,19,858	2,11,12,307	3,89,017
1922-23 ..	32	28,37,740	2,15,19,625	5,81,798	2,47,81,999	4,30,681
1923-24 ..	32	32,41,337	2,57,16,250	7,14,032	2,95,33,989	5,80,276
1924-25 ..	31	36,92,477	3,00,60,753	8,90,063	3,44,67,230	7,12,360
1925-26 ..	31	40,23,256	3,45,97,534	10,38,990	3,95,23,015	7,23,111
1926-27 ..	31	44,32,588	4,22,66,554	12,58,851	4,77,81,743	8,86,602

As a rule there is one central bank for each district, but in East Godavari there are four, while Tanjore, Ganjam and Kistna districts each has two. The operations of the Madura-Ramnad Central Bank extend to Madura and part of Ramnad district, the remainder of Ramnad having a separate bank, while the districts of Coimbatore and the Nilgiris are served by one bank. Of the amount of roughly $4\frac{1}{4}$ crores shown as "deposits and other borrowings including overdrafts" for the year 1926–27—

35·46 per cent represented deposits from individuals, whether members or non-members of any co-operative organization. Separate figures for each class are unfortunately not available.

12·61 per cent represented deposits from co-operative societies.

32·8 per cent represented deposits by local bodies and Government departments. This important feature in the finance of these institutions appeared first in 1919–20, when Government passed an order permitting local bodies to deposit in central banks approved by the Registrar, their surplus funds and deposits lodged with them by contractors and employees. To these were also added railway-cess and deposits lodged with the Forest, Abkari, Jail and other Government departments. The total amount of these deposits has increased rapidly from 3 lakhs in 1919–20 to 164 lakhs in 1926–27.

1·76 per cent represented cash credit drawn on the Imperial Bank.

·81 per cent represented cash credit drawn on the M.C.U.B.

16·56 per cent represented loans from the M.C.U.B.

The position however in this matter is not the same in all banks. A few of them are self-supporting in that they take no loans from the M.C.U.B., and a few others are almost in the same position.

Mention is necessary of the cash credit drawn on the Imperial Bank. That bank has ever been most considerate in its attitude towards the co-operative movement, and allows overdrafts on it by co-operative banks including the M.C.U.B. and the Christian Central Bank, on the Registrar's recommendation in each case: these overdrafts at present amount to over Rs. 65 lakhs. Various conditions are attached to these advances. On September 30th 1927 nearly Rs. $6\frac{1}{2}$ lakhs were outstanding against central banks other than the M.C.U.B. on this account.

The maximum dividend allowed to shareholders in central banks is 9 per cent. Most banks have paid this regularly. The by-laws of a few central banks still contain provision for payment of dividends to individual shareholders in preference to society shareholders; but in practice distinction has been made in only a few exceptional cases. The rates of interest paid by central banks on these deposits, borrowings, etc., vary in accordance either with Government Orders,

the decisions of the Bankers' conferences which are held periodically, or their own financial condition. Those payable on deposits of all kinds range from 2 to 6 per cent according to their nature, amount, and period: the lower rates apply only to current deposits. On fixed deposits by local boards and municipalities, other than provident funds and security deposits, the normal rate payable is now 4 per cent.

The present rate of interest payable on cash credit secured by societies' promissory notes actually drawn by central banks on the Imperial Bank is 6½ per cent: when the cash credit is secured by Government promissory notes, the bank's minimum rate is charged. Central banks pay 6 per cent to the M.C.U.B. on loans: on cash credits the same rate is charged on the amount actually drawn or on 20 per cent of the sanctioned amount, whichever is greater.

As the figures already given show, the funds available with central banks have rapidly increased of late years. They are used in making loans to primary societies of all kinds, and on them 7½, 8 or 8½ per cent (in a few cases) is now charged. These rates do not apply to the Christian Central Bank, which is dealt with later.

Central banks also give loans both to members and non-members on the security of deposits made by them. Such loans may not exceed 90 per cent of the amount of such deposits. On them between 7½ and 8½ per cent interest is charged.

Of the amount outstanding with primary societies of all kinds on June 30th 1927—

27·47 per cent had been advanced for one year.
17·75 per cent had been advanced for two years.
38·51 per cent had been advanced for more than two years but less than five years.
16·27 per cent had been advanced for periods exceeding five years.

And on that date—and this is an extremely serious feature—20·18 per cent of amounts which should have been repaid to central banks by their borrowers (primary societies) were overdue on account of principal, and 5·06 per cent on account of interest: that is, these monies had not been paid on due date and no extensions had been given. The corresponding figures for each of the five previous years are as follows:—

	Principal. PER CENT.	Interest. PER CENT.
On June 30th 1922	10·74	2·8
„ 1923	12·68	3·44
„ 1924	16·98	5·37
„ 1925	13·82	3·04
„ 1926	16·76	3·53

No central bank however has made default in repayment on due date of any loans or deposits, either from the M.C.U.B. or individuals.

In paragraph 138 of their report the Maclagan Committee recommended that in the interests of depositors the total liabilities of central banks should not, in ordinary circumstances, exceed eight times their "owned capital", that is, their paid-up share capital plus reserve fund. Government in September 1926 prescribed that in no case should the liabilities of central banks including the Christian Central Bank exceed ten times their owned capital (paid-up share capital plus reserve): till then the proportion was eight times. Central banks are also required to maintain in the form of "fluid resources" 50 per cent of current deposits, 50 per cent of fixed deposits falling due within the next thirty days, 25 per cent of savings deposits, and 50 per cent of the amount of cash credits allowed to other societies, as cover for deposits in them.

Government have laid down that fluid resources may consist of (1) cash on hand, (2) undrawn cash credit with the Imperial Bank of India, and (3) 80 per cent of the current market value of Government promissory notes. The Maclagan Committee were in agreement with the principle of including undrawn cash credits with the Imperial Bank as a legitimate form of fluid resource (paragraphs 133—135). Each bank is required to submit to the Registrar a quarterly financial statement showing in detail that the rules are observed. We have seen some of these statements. Banks do, on occasions, permit their liabilities temporarily to exceed the prescribed standard, but the position is generally regularized with little delay.

18. *The Madras Central Urban Bank.*—In June 1915 the M.C.U.B., which was composed at that time only of individual shareholders, was financing co-operative societies of all kinds throughout the Presidency in districts in which central banks did not exist: in the districts in which central banks had come into existence it was financing them, and not primary societies. In April 1917, in accordance with the recommendations of the Maclagan Committee, it was converted into an apex bank for the whole Presidency, and floated additional ordinary shares to the value of Rs 4 lakhs, which were ear-marked for co-operative organizations including primary societies. A further change was made in 1919, by which primary societies ceased to be admitted as shareholders: those which had already acquired such shares transferred them to the central banks to which they were affiliated: 29 primary societies however still hold, as exceptional cases, shares in the M.C.U.B., but are not now allowed to borrow from it. Other steps were also taken to increase the importance of central bank shareholders as compared with individual shareholders. Details of the number and value of the shares

at present held in the bank, by individuals, central banks, and primary societies are given in chapter III. All the shares held by individual shareholders are preference shares: those held by banks and primary societies are ordinary shares: all shares of either description are of Rs. 100 each. Preference shares carry a dividend of 9 per cent. On ordinary shares the maximum dividend payable is also 9 per cent: and dividend at this rate has been regularly paid.

The bank confines its lending operations almost entirely to financing central banks, though it is ready of course to take money from any source: it also has been permitted since 1920-21 to give advances to non-member depositors on the security of their deposits.

The bank varies the terms on which it takes and gives loans in accordance with the general state of the money market. The present rate of interest charged on loans given by it is 6 per cent: it pays interest at 4 per cent on fixed deposits for one year, and 4½ per cent on such deposits for two years. In 1927, as an experimental measure to attract long-term money, debentures for twenty years bearing interest at 5 per cent were offered for sale to the amount of five lakhs, of which more than one lakh has already been subscribed.

The rate charged on loans made to central banks was reduced from 7 to 6 per cent per annum with effect from September 1st 1927 on certain conditions, of which the following are the most important:—

(*a*) the reduction was only a tentative measure, and

(*b*) the reduced rate only applied to loans made to those central banks whose maximum rate on fixed deposits was 5½ per cent per annum, and 4 per cent per annum in the case of local boards deposits excluding deposits of provident fund and security deposits.

The bank has developed greatly of late years: its figures on June 30th 1927 were:—

Share capital.	Deposits and other borrowing including overdrafts.	Reserve fund.
RS.	RS.	RS.
5,95,770	1,16,96,648	7,00,000

Of the deposits Rs. 47,58,574 had been received from individuals: many of them are not members of any co-operative organization. The balance came from other sources as follows:—

	RS. LAKHS.
Joint stock and other institutions	3·15
Local boards, municipalities, and Government contractors, etc.	25·07
Imperial Bank overdraft	7·31
Central banks	32·17
Primary societies	1·66

The bank had on June 30th 1927 loans outstanding with central banks and primary societies amounting to Rs. 73·62 lakhs. No amount was overdue to the bank.

The Imperial Bank has sanctioned an overdraft of Rs. 17,55,000 to the bank on the security of demand promissory notes, and Rs. 10,00,000 on Government securities, but the amount actually drawn on September 30th 1927 was less than six and a quarter lakhs, and was on Government securities. And the bank in its turn has, as this report is written, sanctioned overdrafts to the extent of Rs. 6,35,000 in favour of fourteen central banks, though less than half of the amount had been actually utilized by them.

In November 1926 the bank decided to offer all central banks a bonus of one-half per cent on loans applied for up to the end of the following June on certain conditions, of which the most important were that the total amount taken by any one bank was not less than three lakhs, and that the bonus was spent wholly on supervision. Seven central banks took advantage of this offer, borrowing Rs. 28 lakhs under its terms. The offer was not renewed after June 1927. Occasionally, as at present, the bank has more money at its disposal than it can invest locally with advantage, and therefore invests some of its monies outside the Presidency.

Government have ordered that the liabilities of the bank may not exceed twelve times its 'owned capital' (paid-up share capital plus reserve fund). And the standard of fluid resources required is the same as for central banks, save that the M.C.U.B. need only maintain 40 per cent of current deposits. The quarterly statements showing that these rules are complied with, which are submitted by central banks to Government, are also submitted by this bank : an examination of them shows that the orders of Government are practically always complied with.

19. *The Christian Central Bank.*—July 1916 saw the birth of a new variety of financing organization in the Christian Central Bank, which is entirely different to the banks already described. The object of its founders was to improve the economic condition of members of the depressed classes, as the ordinary central banks were unwilling for financial reasons to finance societies composed of these classes. In 1921–22 it undertook, on request, the financing of all primary societies in the City of Madras. It also finances all societies formed by the Labour Department, except those directly financed by Government and a few that are financed by ordinary central banks. The bank lends money to unlimited liability societies up to one-sixth (in some cases even more) of the net assets of the members; the usual proportion adopted by the other central

banks is one-eighth. It is not affiliated to the M.C.U.B. On June 30th 1927 the bank consisted of 1,193 shareholders of whom 1,059 were societies. Its borrowed capital amounted on that date to Rs. 13 lakhs, and it had a reserve fund of Rs. 33,783. The Imperial Bank has sanctioned an overdraft to this bank of Rs. 1,75,000.

The bank pays the usual 9 per cent dividend, and has done so regularly save in one year. On June 30th 1927 the amount outstanding with societies borrowed from the bank was Rs. 11,10,167, of which 14·34 per cent was overdue: the corresponding proportion on June 30th for each of the five preceding years was as follows:—

	Percentage of overdues to the bank.
1921-22	21·38
1922-23	12·27
1923-24	8·59
1924-25	8·17
1925-26	9·64

The rates of interest paid and charged by the bank are as follows: on deposits 2½ to 5½ per cent, on loans 8½ per cent, of which one-quarter per cent is ear-marked for supervision.

The business of the bank is of peculiar difficulty owing to the wide sphere of its operations and the absence of any substantial securities with its clientele. It is expected to finance scattered societies lying all over the Presidency, and to trust for its recoveries, not to the security of property, whether movable or immovable, but to adequate supervision, for which it relies on missionary and social service organizations, and on the Labour and Co-operative Departments.

20. *Land mortgage banks.*—As ordinary rural credit societies and central banks were not in a position to meet all the requirements of their members in the way of long-term loans for land improvement, clearing prior debts, and the like, not because of shortage of money, but of shortage of sufficient long-term money, a scheme for special land mortgage banks was approved in 1924-25 in order to attract more long-term money into the movement, and two were brought into existence in that year. By June 30th 1927 ten of these banks had been constituted, but only three had done any real work. These banks are formed on the limited liability basis, and the operations of each bank are restricted to a compact group of villages. The borrowing power is limited to a multiple of the paid-up share capital, and, on the strength of the landed property which the individual members of the bank pledge to it, the bank issues debentures carrying 7 per cent interest. Government have

agreed to purchase debentures equal to the value of the debentures which the banks are able to sell in the open market, subject to a limit of Rs. 50,000 for any one bank, and Rs. 2,50,000 for the whole Presidency. The Government debentures carry interest only at the rate of 6½ per cent.

Hitherto debentures to the value of Rs. 1,46,000 have been sold by the Gudlavalleru land mortgage bank, of which Rs. 50,000 were subscribed by Government and the balance by the public. The bank has so far issued loans amounting to a lakh and a half. The Conjeeveram land mortgage bank has sold debentures worth Rs. 71,000, of which Rs. 28,000 was subscribed by Government. It has issued loans up to Rs. 85,000. The bulk of the debentures so far sold by both the banks has been taken up by a very few individuals.

21. *Supervising unions.*—The earlier unions formed, of which mention has already been made, were not only supervising but also guaranteeing unions, in which the affiliated societies were jointly and severally liable for all the debts consequent on loans made on the recommendation of their union. The constitution was subjected to considerable criticism, and gradually a new type of union developed which did not guarantee but only supervised. With the financing of societies it had no direct connexion.

On June 30th 1915, excluding the Madras Provincial Co-operative Union, nineteen unions—other than the few district banks known as banking unions—of this constitution were in existence, though six had not actually started work. The ideal union consists of twenty-five affiliated primary societies, all within a radius of seven miles, so as to ensure the necessary local knowledge: many unions unfortunately are now too large. Each affiliated society is represented on the union, the executive management of which is vested in a governing body which holds office for one year or until its successors are elected. The functions of a union, as described in the model by-laws, are generally the development and supervision of its affiliated societies. Funds are derived from affiliation fees, various small miscellaneous sources of income, and a supervision fund, to which the central bank (which finances the affiliated societies) usually contributes four annas out of the interest earned on each Rs. 100 lent during the preceding year to societies affiliated to the union and affiliated societies eight annas out of the interest earned on each sum of a hundred rupees lent. The income of a union therefore develops *pari passu* with its activities. Unions have largely developed during the last ten years, and on June 30th 1927 there were 356 unions in the Presidency, to which 10,618 societies were affiliated. At the present time, save for a few non-agricultural societies, certain societies in charge of the Labour Department, and

some lying in remote tracts, almost all primary societies are affiliated to a union. During the year 1926-27 the unions of the Presidency spent about three lakhs on supervision.

An important function of unions is to recommend loans applied for by the affiliated societies to central banks: the latter insist on such applications passing through unions. In some cases these applications also pass through the local departmental officer, who adds his views on them: but in a gradually increasing number of cases this procedure is now being abandoned, and unions forward loan applications direct to the central bank.

Each union is supposed to maintain at least one paid supervisor who supervises societies on its behalf; the members of the governing body are also supposed to visit societies themselves. Supervisors are generally paid salaries varying from Rs. 30 to Rs. 50 per month in addition to travelling allowance. They are not particularly well-trained for their work; to this point we return later.

In the year 1926–27 a total sum of Rs. 2·87 lakhs was spent by all the unions in the Presidency, which gives an average of Rs. 800 per union. A few large unions indeed had over Rs. 2,000 each at their disposal. Many unions on the other hand find considerable difficulty in paying their supervisor regularly, and occasionally therefore dispense altogether with his services. Reason for this may be found in the fact that approximately a lakh and quarter of supervision fund remained uncollected during the year. On the other hand about the same amount was collected but not spent.

22. *Federations.*—In 1918–19 another form of supervising agency appeared in the "district councils of supervision" in the North Arcot and Salem districts: their chief functions were to co-ordinate the activities of unions and to supervise the few societies not yet affiliated to any union. A similar institution was already in existence in the Trichinopoly district, but it was not registered as a co-operative society. The need of an agency to supervise and co-ordinate the work of unions was greatly felt, but, before proceeding with the organization of more district councils of supervision, it was decided first to watch carefully the working of these three. In Trichinopoly the central bank controlled the entire work of the district council, with the result that the local unions ceased to take any interest in it. In the other two districts a different constitution was adopted, in that the councils in them were worked entirely by union representatives: the central banks were given no representation on them, but were informed regularly of their activities. In Salem the council achieved but little: in North Arcot however some success was attained. Matters continued in this state till 1923: from that year onward organized efforts were made to start district federations, as these councils then came to be termed, in each district.

A conference was held in March 1925 which was attended by representatives of the M.C.U.B., central banks, federations and unions: it was decided "after a long and interesting discussion" that the district federation, being the organization for propaganda as well as for the co-ordination of the work of local unions, should be open to central banks and urban banks.

Federations now exist in nineteen districts, and the constitutions of all, save three, provide for the admission of central banks as members. One district is bi-lingual, and a proposal to form separate federations for each language area is under consideration: in a second the attitude taken by the central banks prevents the birth of a federation, though in it an institute has been formed which performs some of the duties of such a body: in the third it is hoped that a federation will be organized at no distant date.

The model by-laws for a district federation give representation to the following organizations operating in its area: all unions: all primary societies not affiliated to any union, and the central bank. Unfortunately a few federations have not yet agreed to give the central bank representation which the latter body considers adequate.

The duties of a federation are the co-ordination of the work of local unions, supervision, training, education and general propaganda. At a departmental conference held in March 1927 the opinion was accepted that the supervision fund of each district should be pooled in the district federation, and that the control of the supervising staff of unions should also be vested in it: federations also require a higher supervising staff to check the work of the union supervisors. Various powers, such as the sanction of the budgets of unions, which used to be exercised by the Registrar, have now been delegated to federations.

Federations derive their funds mainly from affiliation and delegation fees, contributions from affiliated unions, societies, and central banks, and also from Government subsidies: the average income of a federation in 1926-27 was Rs. 3,750. But this figure in itself gives a wrong impression, as some federations have over Rs. 8,000 each at their disposal, and some not even as many hundreds. Government have sanctioned grants amounting to Rs. 13,000 in all to be distributed to these bodies for holding training classes for co-operative workers. In 1926-27 three federations undertook the compilation of the annual statistics of the co-operative department in their districts. This most troublesome task often occupies much of the time of the small Government staff.

23. *The Provincial Co-operative Union.*—As originally formed, the Provincial Co-operative Union, "the P.C.U.," was composed

of both individual and society shareholders, but in 1918 steps were taken to exclude individuals from membership, which was henceforth entirely confined to affiliated societies. Till 1919 the union's income was almost entirely derived from the publication of the Madras "Bulletin of Co-operation". Its membership is now open to "provincial societies", central banks, district federations, supervising unions, and primary non-agricultural societies, with a working capital of not less than Rs. 20,000. Persons of knowledge and distinction in the field of co-operation may be invited to be honorary members. They may take part in the proceedings but are not entitled to vote.

The objects of the union are—

(i) to propagate the principle of co-operation;

(ii) to organize special types of societies;

(iii) to assist the work of local councils, and "District councils of supervision";

(iv) to serve as the recognized exponent of non-official co-operative opinion in the Presidency; and

(v) to undertake such other work as will promote the cause of co-operation:

and these objects are to be achieved by—

(*a*) publishing the provincial monthly bulletin in English and Tamil;

(*b*) publishing pamphlets and leaflets on co-operative subjects from time to time;

(*c*) maintaining an efficient circulating library of co-operative literature;

(*d*) summoning the annual Provincial Co-operative Conference;

(*e*) arranging propagandist tours by paid and honorary lecturers;

(*f*) organizing training classes for supervisors and honorary workers; and

(*g*) by other means.

Its membership now consists of two "provincial societies", 23 central banks, twelve stores and trading unions, fifteen federations, 174 supervising unions, two audit unions (these are described later), and 58 non-agricultural societies: its income in 1926–27 was Rs. 9,570, which was derived from the proceeds of the sale of the bulletin and from subscriptions from affiliated organizations. The principal items that appear in the union's expenditure budget are the costs of producing the bulletin and various pamphlets and leaflets. This latter branch of work was only undertaken in 1926;

since that year nine pamphlets and twenty-two leaflets on co-operative matters have been published. Its most important development of late years has been the institution of a training class each cold weather. The class lasts three months, and instruction is given in co-operative matters generally. It has been attended during the three years in which it has been held by 100, 19 and 43 students respectively. Some students are the employees of non-official supervising agencies, but others attend it of their own accord : thirty of the latter are attending the 1927–28 course.

Government in 1925 agreed to make an annual grant of Rs. 1,200 for five years towards the cost of this course on condition that its syllabus was approved by the Registrar.

The union annually convenes the Provincial Co-operative Conference. Proposals to change the constitution of the union to render it better fitted to discharge its objects have been approved by the general body, and the amended by-laws await the Registrar's approval.

A somewhat similar organization, the Andhra Sahakara Sammelanam, with headquarters at Rajahmundry, also publishes at intervals a Telugu journal on co-operative matters. At present this organization has no other activity.

24. *Government staff and Government and non-official expenditure on the movement.*— In 1915–16, when the total number of primary societies in existence was 1,758, the staff of the department consisted of one Registrar in the Provincial Service cadre, six Assistant Registrars, who were selected from Deputy Collectors, and 60 inspectors: the total cost was Rs. 1·46 lakhs. This staff was responsible both for supervision and audit. With the growth of societies there was a steady increase annually in the number of Assistant Registrars till 1918–19, when there were eleven of these officials with 85 inspectors to deal with 3,547 societies. In that year the total cost of the staff was Rs. 2·29 lakhs. The post of Registrar had been placed on the Indian Civil Service cadre in 1917–18.

In 1919–20, as the result of a resolution moved in the Legislative Council advocating "the formation of new societies on an ampler scale" so as to extend the movement to all parts of the Presidency, a great expansion took place. The scheme sanctioned by Government to give effect to the resolution contemplated the formation of 4,500 new societies in two years, and an increased staff was sanctioned temporarily for five years, at the end of which time it was hoped the new societies would have found their places in existing or newly organized unions, and the extra staff could be withdrawn. In consequence of the scheme in 1919–20 the Assistant Registrars were increased to 18 and the inspectors to 184, at a total cost of Rs. 3·08 lakhs, which rose to Rs. 5·34 lakhs in the next

year when the scheme was fully working. In 1919–20 the number of primary societies in existence was 4,859 : it had risen in 1920–21 to 6,077, and in 1923–24, at the end of five years, to 9,472. The Government staff however had not been increased proportionately. The number of inspectors of all grades, which was 228 in 1920–21, rose only to 277 in 1923–24, and the total cost to Rs. 6·28 lakhs. As a result the official staff became increasingly absorbed in the duties of audit, as the term is at present understood, and was forced to leave supervision more and more to non-official agency. By 1924–25 the Registrar had only 47 inspectors available for duties of all kinds other than audit, and by May 1926 even these had been almost completely absorbed into audit.

After 1921 Government appointed as Assistant Registrars men other than Deputy Collectors. Some were Tahsildars or Deputy Tahsildars : some were recruited direct. In 1923–24, of 23 Assistant Registrars only 12 were Deputy Collectors. There was then one Assistant Registrar for each of the then existing districts.

In 1924–25 a reorganization of the superior staff was carried out with a view to make the department self-contained, less expensive, and more efficient. A new post of Assistant Registrar for each district was created, on a lower scale of pay than that drawn by the then incumbents : these posts were to be filled principally by men promoted from the inspector grade : the existing Assistant Registrars were styled Deputy Registrars, and were reduced to nine in number : eight were placed in supervisory charge of groups of districts, and one was personal assistant to the Registrar. It was intended that the Deputy Registrars, relieved of the routine of district work, which was to be in main performed by the Assistant Registrars, should pay adequate attention to general administration, and particularly to the organization of non-credit societies.

A Joint Registrar was appointed for a short period in 1920–21, but the post was abolished in deference to the wishes of the Legislative Council. It was revived in April 1926, to provide relief for the Registrar, who was over-burdened with work, much of it routine. The Joint Registrar now deals with non-credit work, under the general supervision of the Registrar, though occasionally the latter entrusts to him particular pieces of work in connection with credit societies.

In December 1927 the total Government staff, other than clerks, peons, etc., employed in the Co-operative Department (excluding the 67 inspectors lent to work under the Labour Department) was as follows: one Registrar, one Joint Registrar, 9 Deputy Registrars, 27 Assistant Registrars (in addition to three temporarily sanctioned, for training of staff): 24 senior inspectors, who are mainly employed on the audit of central banks and federations, and are not available for audit of primary societies:

7 senior inspectors employed in offices: 10 senior inspectors employed on organization of non-credit work, in addition to 14 temporarily sanctioned for the same purpose: two senior inspectors for land reclamation in Tanjore: 208 junior inspectors for audit of primary societies, and 4 sanctioned temporarily for the same purpose: 24 junior inspectors temporarily sanctioned for liquidation purposes: 48 junior inspectors temporarily sanctioned for general administrative work: one junior inspector for land reclamation in Tanjore: and 82 junior inspectors employed in offices.

It will be seen that, apart from the staff employed on special duties and that temporarily sanctioned, no inspectors of either grade are available for work other than audit.

The sanctioned scale of pay is as follows:—

Deputy Registrars ...	(*a*) for those who were Deputy Collectors, their grade pay: no allowance is now attached to the post as was formerly the case: (*b*) for others, Rs. 300—30—450: selection grade Rs. 500—50—850.
Assistant Registrars ...	Rs. 150—5—200—10—250.
Senior inspectors ...	Rs. 80—4—100.
Junior inspectors ...	Rs. 40—4—60—2—80.

The following statement shows since 1915-16 the annual expenditure both by Government and non-official agency on the co-operative movement. From these figures have been excluded loans given by Government for special purposes, as to house-building societies, land mortgage banks (debentures taken up by Government), loan and sale societies (for construction of granaries), depressed classes societies, fishermen's societies, and land reclamation societies. These loans all carry interest, and will normally all be recovered in due course:—

—	Government expenditure.	Percentage of Government expenditure to total working capital.	Non-official expenditure.	Percentage of non-official expenditure to Government expenditure.
	RS. LAKHS.		RS LAKHS	
1915-16	1·46	·87	·07	4·83
1916-17	1·65	·80	·26	15·82
1917-18	1·90	·81	·47	24·72
1918-19	2·29	·74	·57	25·41
1919-20	3·08	·78	·91	29·77
1920-21	5·34	1·09	·96	18·12
1921-22	5·88	·98	1·25	21·43
1922-23	6·19	·87	1·56	25·31
1923-24	6·28	·75	1·91	30·47
1924-25	6·66	·67	2·19	32·87
1925-26	6·87	·61	2·45	35·65
1926-27	7·35	·55	3·31	45·45

It will be seen that the proportion that Government expenditure bears to the total working capital is, since 1920–21, steadily decreasing annually, and that non-official expenditure on the movement is steadily increasing.

It is interesting to compare the Government expenditure on the Co-operative Department in Madras and in other provinces. The size of the movement in each province must be taken into consideration. The following are the important figures: every possible care has been taken to compare 'like with like': thus loans from Government have been excluded in all cases. The figures are for 1926–27:—

—	Total number of members of co-operative societies.	Total Government expenditure.	Government expenditure per member.
		RS. LAKHS.	RS. A. P.
Madras	830,522	7·35	0 14 2
Bengal	546,000	5·45	1 0 0
Bombay	482,730	5·00	1 0 7
Punjab	505,122	8·77	1 11 9
Central Provinces	140,614	1·97	1 6 5
United Provinces	164,000	1 36	0 13 3

The total amount of loans granted by Government to co-operative organizations of all kinds outstanding on June 30th 1927 was Rs. 23·42 lakhs, composed of the following items:—

	RS.
Building societies	13,69,154
Land mortgage banks (debentures)	62,000
Loan and sale societies for construction of granaries ...	5,800
Loans to depressed classes societies	7,57,139
Kallakurichi agricultural and industrial society under the State Aid to Industries Act	17,831
Fishermen societies	3,000
Land reclamation societies	1,26,955
	23,41,879

25. *Audit and audit unions.*—The Maclagan Committee contemplated the formation of a non-official staff for audit in the strict sense of the word, and also an official staff for a 'super audit', which was to include some functions of supervision. When their report was submitted in 1915 Government were considering a proposal to charge fees from all societies for audit, which had been up to that time carried out by the Registrar's ordinary field staff: the proposal originated in the difficulty of providing sufficient staff to cope with the ever-increasing number of societies. After

however much deliberation Government decided to drop the proposal, which had aroused considerable opposition, as premature: but at the same time they accepted the proposals of the Maclagan Committee, and stated that in their opinion the direction in which progress should be looked for was in the formation of controlling groups of societies, and the gradual devolution of the functions of audit and supervision to them. During the following years groups or unions of societies were formed accordingly, and they have been already mentioned. But these were supervising bodies, and have never undertaken audit in any form. Until 1923-24 Government conducted free of charge the audit of all societies without discrimination. But since that year ten audit unions, to which are affiliated 91 primary societies, have been formed for purpose of audit alone: they are all composed of urban societies, which feel the special need of both a careful concurrent and a speedy final audit. During 1926-27 the income of all these unions was Rs. 11,675, and their expenditure Rs. 9,673. In addition to them four important banks, among which are included the M.C.U.B. and the Christian Central Co-operative Bank, and two large societies, have made separate arrangements for their audit, and pay for it.

The desirability of charging audit fees generally was considered again in 1920 and 1925, but it was decided that the financial condition of societies which contribute to supervising unions, as do the great majority of societies in the Presidency, would not permit them to contribute to the cost of audit also. With the exception therefore of the cases mentioned above, all audit is still done by Government free of charge: in this respect the conditions in Madras differ from those prevailing in many other provinces.

Audit is a statutory duty—section 17 of Act II of 1912—and therefore Government, through the Registrar, are under a legal responsibility to ensure that all societies of every description are audited each year, either directly by their own officers or by independent competent auditors. For this purpose a staff of inspectors, whose functions are confined to audit alone, is maintained by Government, who laid down in 1923 that each such inspector should audit 100 societies a year. Experience, however, has shown that this standard is quite impossible to attain in practice, and each inspector is now expected to audit sixty societies annually. This scale has practically been accepted by Government. Of each society in their charge these inspectors carry out a 'preliminary' and a 'final' audit: the latter should be taken in hand as soon after June 30th as possible. But in practice the final audit of many societies is not completed till long after that date. Since 1920 many new societies have been formed, but the number of audit inspectors has not been regularly increased in proportion. The

Registrar has therefore been forced to devote most of his few other inspectors, who were originally intended for administrative work, to audit; and on June 30th 1927 the total staff of inspectors available for 'field' work was employed altogether on audit.

26. *Reserve funds.*—Primary societies of all kinds invest their reserve funds in the central bank with which they deal; central banks invest their reserve funds in the M.C.U.B. and the latter invests all its reserve fund in Government paper.

The net working capital of the movement on June 30th 1927 amounted to Rs. 737·70 lakhs, including the additions made to reserve funds as a result of the audit for the year ending on that date. The amount was composed of—

	RS. LAKHS.
Share capital paid up by individuals	139·57
Deposits and borrowings, excluding investments of co-operative societies in each other.	506·17
Loans from Government	23·42
Reserve fund	68·54
	737·70

The owned capital in the movement, namely the share capital actually paid by individuals and the reserve fund, was 28·21 per cent of the total net working capital.

Both in the figures for working capital and share capital given in the All-India statistics there is considerable duplication, and we are unable to compare these figures with the corresponding figures for other provinces of India; but we note that the reserve fund of the M.C.U.B. in 1925–26 was higher in proportion to its working capital than that of any other central bank in India except that of Burma.

The growth of reserve funds in Madras is necessarily hampered by the fact, already mentioned, that the margin available for working expenses with primary societies in this Presidency is lower than in any other province in India, and hence the profits of these societies are necessarily smaller. The rates also at which primary societies lend to their members are much lower in Madras than in any other province of India except Bombay. There, as in Madras, the usual rate is $9\frac{3}{8}$ per cent, but in all other provinces the prevailing rate is either $12\frac{1}{2}$ or 15 per cent.

27. *Arbitration and liquidation.*—Under the rules framed under section 43 (2) (*l*) of the Co-operative Societies Act, 1912, the Registrar is given power to decide disputes in certain cases between

members of co-operative societies. The work has increased greatly of late years, and no fee is charged for it. In 1916-17 1,097 such cases were disposed of: prior to that year the figures were insignificant. In 1926-27 over 21,000 such references were made, and over 7,000 references, involving nearly Rs. 7¼ lakhs, were pending at the close of the year. Over 43,000 decrees covering Rs. 32½ lakhs, given in such cases were awaiting execution on June 30th 1927. Over 1,300 cases dealing with "co-operative disputes" were also filed in civil courts in 1926-27, and at the close of that year 2,667 decrees which had been given in such cases, covering rupees one lakh and a half, were pending execution.

Sections 39 to 42 of the Act prescribe the procedure to be followed when for any reason the registration of a society is cancelled, and its liquidation is consequently ordered by the Registrar. He is bound under the Act to appoint a "competent person" as liquidator. The liquidator appointed is practically always one of the Registrar's subordinates. The following table shows the percentage that the number of societies ordered to be liquidated bears to the total number of societies in existence for each of the last five years:—

	Credit. societies.	Non-credit societies.
1922-23	·51	10·93
1923-24	·59	5·07
1924-25	·62	2·41
1925-26	·34	1·18
1926-27	·40	1·45

During 1926-27 the liquidation of 71 societies (59 credit and 12 non-credit) was ordered, and liquidation proceedings were completed in 28 societies. At the close of the year the liquidation of 258 societies was in progress: of these, ten have been under liquidation since 1915, 17 since 1916, and 90 others for more than three years.

28. *Education and training.*—An account has already been given of the training classes held by the Provincial Co-operative Union, which receives a subsidy for the purpose from Government of Rs. 1,200 annually. The similar subsidies to federations, which have also been mentioned, were first given in 1925, when their total amount was Rs. 2,000. They now amount to Rs. 13,000, and a further sum of Rs. 1,000 has recently been given to the Hood Institute, Tanjore, for a similar purpose: in that district no federation exists at present. The subsidies are used to cover the expenses of classes which are held at different centres to give instruction in co-operative principles to office-bearers and members of societies: in 1926-27 the Chingleput federation held classes in 17 different centres, and spent the whole amount of its subsidy.

But the South Kanara federation in the same year only spent one quarter of its subsidy of a thousand rupees : the classes held with the aid of that sum were attended by 46 members of primary societies.

So much for the education and training of non-officials in co-operative principles. The orders as to the training of officials are as follows. Probationary Assistant Registrars should be given five months' training, much of which is practical. All candidates for the post of inspector must have passed at least the School Final examination, but only graduates are now generally appointed to these posts. These men should receive six months' training ; much of it also is practical.

Each Assistant Registrar must convene every six months a meeting of all the inspectors in his district: supervisors employed by non-official supervising bodies are also invited to attend these meetings. Each of them lasts a week, during which a course of intensive training in co-operative principles is held. Advantage is also taken of these courses to conduct co-operative propaganda in neighbouring villages.

Chapter III—Problems and Proposals.

29. *Preliminary.*—In this chapter we deal with the problems which the different varieties of co-operative organizations offer, and suggest possible solutions for them. So far as possible each form of organization on which we make proposals is dealt with in the order already adopted. Some forms however which offer the same problems are dealt with together: the problems common to all forms of co-operative activity are also treated in the same manner.

In the next paragraph we put forward a proposal to divide agricultural loans into long-term and short-term loans, as we consider this the most important of all our proposals, and proper understanding of it is necessary if our proposals on the forms of organization which it affects are to be easily understood.

Generally speaking, we consider that the co-operative movement in the Presidency has done good, especially in the general reduction in the rate of interest charged by ordinary money-lenders on their loans to cultivators. But much remains to be done: the movement has not yet touched, even nominally, the lives of more than ten per cent of the people: in many respects it requires correction, in some a change of system, and in some additional attention.

The evidence we have received is to the effect that the monies invested in the movement at present are, generally speaking, safe, and will prove ultimately recoverable. Anxiety is however felt on some matters, especially the increasing amount of overdues, and immediate steps should, we most strongly urge, be taken to remove it.

The following are the principal reasons given to us for this increase in overdues:—

(1) bad harvests;

(2) illiteracy and ignorance of co-operative principles in primary societies, and indifference of panchayatdars, who are in many cases themselves defaulters;

(3) the lack of proper supervision due to ill-paid and ill-equipped non-official staff;

(4) the sudden withdrawal, without due notice, of the department from supervision;

(5) failure to recognize their financial and co-operative responsibility on the part of central banks;

(6) an exaggerated sense of security in the minds of financing institutions, which is based on a wrong impression of the implications of unlimited liability, and failure to realize the seriousness of the results of enforcing that liability;

(7) the lack of proper attention to the granting of extensions;

(8) the granting of loans without proper consideration of their purpose, and of the repaying capacity of members;

(9) benami transactions;

(10) the fact that, even when penal interest is levied, the rate of interest charged is lower than the market rate in many districts, and members who have also borrowed from money-lenders in consequence repay the latter first. Decree interest is also lower than the market rate: execution proceedings present much difficulty, and the low rate of interest encourages defaulters to raise every possible obstacle;

(11) the failure to take prompt and sufficient steps for the recovery of overdues.

Varying stress was naturally laid on different causes in different districts. The recommendations made in our report will, we think, remove many of them, but many can only be rectified by better work generally in co-operative institutions, and we feel that we cannot over-emphasize the necessity for full attention to all these points by co-operators. The better education of panchayatdars is particularly necessary.

The figures supplied to us by the twenty-seven central banks, which replied to the special questionnaire sent them, show that 1,363 societies have not borrowed from them for three years, and 1,613 for two years: more than 3,000 societies are therefore in a dormant condition.

The position is serious, and must have resulted largely from the formation of societies without proper enquiry or preparation. This danger must be avoided in the future, and immediate attention must be given to the rectification, if possible, of all dormant societies, or, failing this, to their liquidation.

The policy regarding long-term and short-term (of not more than one year) loans appears to us to have changed radically within recent years. Of the total amount of loans granted by agricultural societies during the year 1926–27 only 16·70 per cent was given for cultivation purposes.

We draw special attention to the several cases of embezzlement, especially in primary societies, which have come to our notice. It is argued in some quarters that, if honorary workers are punished for such offences, sufficient honorary work will not be forthcoming. We cannot agree to this view, and we consider that every possible step should be taken to protect members of primary societies and others from losses caused by misfeasance, and that, in all cases where proof is forthcoming, proper punishment should be inflicted.

30. *Division of agricultural loans into long and short-term loans.*—The failure to distinguish long and short-term business is in our view the most unsatisfactory feature of the co-operative movement at the present time. The distinction, which is an axiom of commercial banking, applies equally to co-operative banking, although we recognize that rural co-operative banks have a special security in their unlimited liability, since the speedy realization of such security on any large scale rapidly would be impossible, and would in any case result in the ruin of the members for whose benefit the societies were formed.

We think that one of the reasons for the present large overdues is the defect in the present organization under which no facilities are granted for the prompt disposal of short-term loan applications: cultivators do not repay their loans, as they think that if they do so they will be unable to obtain the money they require in time for their next cultivation season.

The unlimited liability of members ceases two years from the date on which they resign from a society, and in the meantime there is nothing to prevent them from alienating their property. Loans to societies are based on the property statement, and much of the property may not be available to the society when the period for a long-term loan has run its course. Such loans therefore entail quite different considerations from short-term loans, and the combination of the two is extremely dangerous.

We have found during our tours that the localities in which co-operation is healthiest are those which have laid greatest stress on short-term business. On the other hand, in certain districts where long-term business preponderates, some of the evidence was to the effect that the ryots were deeper in debt than formerly.

We propose to define short-term loans as those repayable in whole out of the next harvest (normally the period of repayment will not exceed twelve months, but in a few special cases, such as sugarcane and betel leaf cultivation, it may extend up to two years): and long-term loans, as those repayable in instalments over a period of years out of the annual savings of the borrowers.

We have departed from the usual practice of emphasizing the purpose of the loans in our definitions, though in general short-term loans will be for crop finance and long-term loans for other finance. The maintenance expenses of a ryot however—though necessary to enable him to continue cultivating his crop—are not actually invested in seed, manure, etc. On the other hand, expenses in connexion with the deepening of wells or applying large amounts of manure to lands directly relate to the crops, though they can sometimes only be repaid out of the savings of a series of years. If therefore the purpose is

emphasized, many qualifications are necessary, and we think our definitions bring out clearly the economic implications which are, that in the one case the loan is repayable out of the harvest, and in the other out of savings. The distinction we make is not new. Our experience has convinced us that the ryot understands it and appreciates its economic value and Mr. Hemingway in pages 16 to 18 of his manual distinguished short from long-term loans in much the same way. The financial and economic implications and benefits of such a division do not however seem to have been emphasized or kept in view by the department or by any co-operative organizations.

We consider that the following advantages will accrue from treating short and long-term loans as distinct classes of business.

(1) Short-term loans for cultivation expenses are usually urgently required, as a ryot must sow his seed and conduct other agricultural operations immediately the land is in a suitable condition. We find that usually he makes no preparations for such requirements until the need actually arises. The present system under which short and long-term loans are included in the same application to central banks results in both classes of loans being treated similarly. Adequate consideration of applications for long-term loans necessarily, in many instances, takes considerable time, but the nature of short-term loans is such that prompt disposal should usually be possible. In practice we find that the time now taken in dealing with such loans is often as long as two months. The ryot cannot obviously wait for any such period, and in consequence goes to the money-lender: the division will enable societies to dispose of short-term applications separately, and therefore with less delay.

(2) Even so a short delay would probably be inevitable in some cases. But it should be easy for societies functioning normally to prepare forecasts of their cultivation requirements and, once carefully prepared, the amounts would differ very little from year to year. These forecasts should be considered by the unions and central banks before the cultivation season commences and suitable limits of credit fixed for such societies. All that the societies will then have to do will be to forward promissory-notes to the central banks from time to time as necessity arises, up to the limit fixed, and central banks will be able to remit the amounts required without any further formalities. We do not think that central banks need maintain fluid resource on any definite scale in such cases, though they will naturally arrange their finances in such a way as to avoid all possible delay in making such payments.

(3) When a loan is made to a society for short and long-term purposes on one bond or promissory note, registration of the document is usually desirable so as to extend the period of limitation from three to six years. Further, long-term loans are usually on

mortgages which must be registered. We think that in general short-term loans repayable out of the next harvest may safely be granted on the promissory notes of societies alone, and that these need not be registered. In the evidence we were told that such registration was one of the causes of delay in short-term finance, and we think therefore that a further saving of time may be effected in this manner by the division proposed. The Imperial Bank and the M.C.U.B. may we consider be asked to relax their present rules, which require registration, in the case of short-term finance.

(4) The evidence we have obtained points to the fact that short-term loans are of more economic benefit to the ryots than long-term loans. The money rate for short-term loans is in many districts higher than that for long-term loans, as money-lenders take advantage of the urgency of the need: in most districts the real rate is higher, as money-lenders often insist on crops being sold to them at pre-arranged unfavourable prices, or else require payment of their dues immediately the crops are harvested when prices are low. Any scheme therefore which facilitates the prompt sanction of short-term loans appears to us of very great importance: adequate short-term accommodation will provide an extra margin of profit out of which ryots may reduce their long-term indebtedness.

(5) We think the division we propose will help to educate ryots against misuse of loans and in punctual repayment. Unless crops fail there will be no satisfactory reason for default. It will be easy to judge whether extensions are desirable or not. At present they are in very many cases not granted when needed: in a few cases they are granted without justification. Under our scheme central banks will be enabled to regulate extensions in the case of short-term loans with a reasonable degree of accuracy. We think further that central banks will be enabled to grant short-term finance to societies which are in default in their long-term finance for the benefit of good members, and so prevent such members leaving the societies. On the other hand societies in default in their short-term finance when the crops have not failed will be clearly shown up, and must be radically dealt with.

(6) We have pointed out that, while short-term loans are repayable out of the proceeds of harvest, long-term loans can only be repaid out of savings. To make this point clear, if cultivation expenses are Rs. 125, the crop realises Rs. 250, and maintenance expenses are Rs. 100: savings will be Rs. 250 minus (125 + 100), viz., Rs. 25. A short-term loan may be paid in full out of the Rs. 250 received for the crop, and Rs. 25 is available for repayment of long-term loans. We think that if the division we propose is made, and the 'lien' over the crop is converted into a 'charge' (as recommended in our paragraph on primary societies), an improved basis

for the assessment of credit will be arrived at. We deal with this point further under primary societies.

(7) Central banks and the department will be enabled to see clearly the amounts of short and long term finance, and to take steps, when necessary, to regulate their deposits accordingly.

(8) We consider that the division proposed will assist the finance of the movement, especially in times of stress, by enabling the discount of promissory notes by central banks in favour of the M.C.U.B. in respect of their short-term transactions, as commercial banks prefer to discount short-term paper definitely relating to short-term produce transactions. This point is of special importance in relation to the Reserve Bank which it is proposed to establish. Our considered opinion is that the scheme we suggest will make co-operative short-term promissory notes of not more than twelve months usance suitable for discount by this bank. The existing provision fixes the period at six months: this was the period originally fixed in the United States of America, but it was found necessary to increase it to nine and then to twelve months.

Nature of division.

We recommend that in primary societies,

(1) separate application forms and separate promissory notes on paper of different and distinctive colours be adopted for short and long term loans;

(2) separate ledgers with leaves of different colours be maintained for short and long term loans. Borrowings from central banks and, where necessary, deposits for short and long term purposes (as defined above) should be differentiated in separate accounts, if not in separate ledgers;

(3) short and long term loans, and deposits and borrowings, should be shown separately in the balance sheets, and, in the case of the long-term items on both sides, the amounts due for each succeeding year should be separately shown. We also recommend that in a footnote to the balance sheet an analysis of the loans should be given as follows:—

Short-term loans.

Not yet due. ... { (1) surety. (2) mortgage.

Extended

Once (1) surety. (2) mortgage. Twice or more. } (1) surety. (2) mortgage.

Overdue ... ... { (1) surety. (2) mortgage.

Long-term loans.

Not yet due.	...		(1) surety. (2) mortgage.	
Extended	Once	(1) surety. (2) mortgage.	Twice or more.	(1) surety. (2) mortgage.
Overdue ...	...		(1) surety. (2) mortgage.	

We note that in the primary societies in Bengal a register in which the borrower and sureties sign is substituted for the ledger and promissory note in the case of short-term loans, and we commend this proposal for adoption.

We recommend that in central banks—

(1) all forms of application to the M.C.U.B. and all promissory notes should be in different colours for long and short term loans;

(2) separate loan ledgers should be maintained for (*a*) short and long term loans, and (*b*) short and long term deposits and borrowings. In the case of loans this is already done in some cases, as the Imperial Bank grants cash credits only on the security of short-term promissory notes;

(3) short and long terms loans and deposits should be shown in balance sheets separately, and, in the case of long-term loans and deposits, the amounts due in succeeding years should also be shown separately. This is already done by the Tanjore District Co-operative Central Bank, Limited, Kumbakonam. An analysis of short and long term loans not yet due, extended, and overdue, should be given as in the case of primary societies.

In the M.C.U.B. a distinction in promissory notes and ledgers should be made as in the case of central banks, and the balance sheets should give similar information.

The Central Provinces Co-operative Committee (1922) recommended unanimously a division of long and short term business on the above lines. In fact it went further, in proposing separate cash books and balance sheets for the different transactions. This recommendation was accepted by the Central Provinces Government, but does not appear to have been adopted in practice. We do not think that separate cash books and balance sheets are essential if the divisions we suggest are fully observed without them, and their omission will greatly simplify the working of the scheme. Separate columns in the cash book may however with advantage be provided. While writing our report we have received a copy of the Annual Report of the Co-operative Department in Bengal for 1926–27, and we note that a scheme very similar to that we suggest has recently

been adopted in that province. In however both the Central Provinces and Bengal emphasis is laid on the purpose of the loan, whereas we have preferred to lay it on the source of repayment.

It is of course an indisputable financial principle that short-term deposits should be invested in short-term loans. We consider that every effort should be made to provide long-term credit through the agency of land mortgage banks at the earliest possible date. When these facilities have been sufficiently provided co-operative institutions should confine themselves to short-term loans and to intermediate loans to be repaid by annual instalments in periods not exceeding, at the most, six years. In the meantime, as ten-year loans have become such an integral part of co-operative finance, we fear that their abrupt discontinuance would create a great dislocation in the movement. We however emphasize the fact that safe finance demands that genuine efforts be made to attract long-term deposits, by offering higher rates of interest if necessary, so that periods of deposits will as far as possible synchronize with those of loans. The extent to which this is done will be clearly brought out in the new forms of accounts and balance sheets which we suggest, and should have the special attention of the financing banks and of the Registrar.

31. *Agricultural credit societies—Classification.*—Societies in this Presidency are at present classified entirely on the basis of overdues. We do not consider this method satisfactory, as societies with no overdues may in other respects be extremely bad. In some provinces an endeavour is made to take into account in classification the working of societies from all aspects, and this is in accordance with the recommendations of a conference of Registrars held not long ago in Bombay. These recommendations will be found in Appendix III. We recommend that a scheme of classification on these lines be drawn up and adopted in Madras. Societies in the two upper classes should be given special facilities by central banks.

Panchayat.—We do not recommend payment of panchayatdars, except in respect of clerical work undertaken by them. The evidence we received was strongly in favour of payment of a fixed remuneration, even if it be only Rs. 5 a month, to secretaries, in cases where they undertake this work: if the work is done by a clerk, or some person other than the secretary, the payment will of course be made to him. The basing of remuneration on profits or loans granted, as at present, provides a temptation which should be avoided. Small societies will find it difficult to make such payment but, as the evidence was so strong on the point, we consider it should be a first claim on a society's margin: elsewhere we make proposals which will increase this margin in most cases.

Dividends.—The dividends, which are limited to $6\frac{1}{4}$ per cent, are usually unimportant sums when distributed among several members, although in the aggregate the amount is appreciable. If this amount is available for other purposes, it will assist in the payment for clerical work and in the building up of reserve funds. We recommend therefore that payment of dividends be discouraged.

Property statements.—We have observed a very general lack of thoroughness in the preparation and revision of these statements. They form the basis of the credit allowed to societies, and much greater attention must be paid to them by all concerend: annual revision is essential, and it is the duty of the unions to see that this is done. In our paragraph on audit we express the opinion that their verification is the primary duty of the auditor. A note of warning is necessary here. Although the loans granted to societies must primarily be based on the total property of the members, the loans granted by societies to members must be based on the capacity of the members to repay (1) out of the proceeds of their crops in the case of short-term loans, and (2) out of their savings in the case of long-term loans. We further strongly recommend that in future, property statements should be in the form of stitched books, and not of loose sheets, and should contain full details of the property, including the survey numbers.

Borrowing capacity.—In our paragraph on long and short-term loans we have pointed out that the repaying capacity of members in relation to long and short-term loans involves different considerations. We consider that the panchayats of societies, with the help of unions, should be able to fix suitable limits for each class of loan. We think that in general the present total limit of borrowing power of societies, which is based on one-eighth of the net assets of members, will suffice to cover both classes of loans; but this is a matter which should have the attention of the Registrar.

Loans.—Under long and short-term loans we have dealt very fully with this matter. We emphasize the fact that short-term loans must be granted for suitable periods in relation to the harvests, and that they must be available immediately the need for them arises: the instalments on long-term loans must be within the normal repaying capacity of the borrowers and payable at convenient dates. These considerations appear to be almost universally ignored at present. We also emphasize that it is necessary that much more attention should be paid than at present to extensions of loans: we notice that extensions granted by central banks to societies are often not passed on by the latter to their members, with the result that penal interest is improperly charged on the members' loans. Extensions of short-term loans should only be granted in the case of crop

failure: in such case they should be freely sanctioned, while, if crops have not failed, repayment should be enforced before the next cultivation season.

Facilities for loans on harvested crops should be granted as freely as possible, so as to enable ryots to hold up their produce for reasonable prices. The by-laws should however provide that such loans should only be granted on produce grown by a member, as it is desirable to exclude the middleman from such transactions. If a loan on harvested crops is desired by a borrower who has already taken a loan for the cultivation of that crop, it should not be given unless the first loan is immediately repaid. When sanctioning each loan, an adequate margin on the value of the crop should be provided. The produce must be carefully secured by the panchayat, and promissory notes taken from borrowers for the amount of their loans.

In Chapter II we have said that 49·33 per cent of the loans in primary societies are secured by mortgages and 48·44 per cent on personal security. Most of the evidence we received points to a greater degree of punctuality in the repayment of surety than of mortgage loans: the former are also more co-operative. The danger that borrowers may alienate or mortgage their property elsewhere, and that the resignation of members of societies may radically lessen the security of the unlimited liability offered to central banks, make a mortgage backing desirable in the case of most long-term loans: short-term loans should, we think, ordinarily be granted on personal security. But a warning is necessary against the tendency of central banks and primary societies to consider loans on mortgages as properly secured, and therefore necessitating no attention if overdue. If a large number of such mortgages had at any time to be realized in any one district, the prices obtained would usually be very small: in fact the land might prove unsaleable, as possible purchasers are often confined to local inhabitants. Further, the whole co-operative spirit disappears if banks and societies adopt this attitude.

We recommend that the lien over the crop, cattle, agricultural implements, etc., in respect of which loans are granted, which is provided by section 19 of the Act, should be converted into a charge. This has been done in section 24 of the Bombay Act.

We do not consider that the lending rate of societies should be reduced below 9⅜ per cent. The need of paid clerical work, adequate supervision, and of building up a reserve fund is so great that no decrease is possible.

Deposits.—All possible steps should be taken to encourage local deposits in primary societies. Local deposits are governed by knowledge of the working of a society, and pressure to pay at inconvenient times is unlikely; terms of repayment should allow as great latitude

as possible. But a primary society is not a business institution, and deposits from outside the locality should therefore be discouraged. Current accounts should ordinarily be forbidden.

Inspection and supervision.—In our paragraph on this head we lay the responsibility for inspection of primary societies on central banks, and for supervision on unions and federations, subject to the ultimate responsibility of the Registrar.

Audit.—In our paragraph on audit we draw attention to the fact that statutory audit has not been fully carried out, and make recommendations for its improvement.

Accounts.— These should be as simple as is compatible with clarity. Many of the registers detailed in the manual are unnecessary and are in fact not in use. In our paragraph on long and short-term loans we make proposals for the division of the accounts of these two classes of loans.

Overdues.—We have already said that the steady increase in overdues during recent years is a source of great anxiety to the department and to co-operators generally. In our paragraph on central banks we point out that the Government statistics do not entirely represent the correct position. We have already said that extensions granted to societies by central banks are in many cases not passed on to society members, and also that loans are often granted in excess of the repaying capacity of members: these causes probably considerably inflate societies' overdues. The evidence we received points to bad harvests being an important cause of overdues in the dry districts, though some co-operators of the wet areas, where the crops are secure, give, we consider, undue prominence to this factor.

We think that any comparison with other provinces is entirely valueless, in the absence of full knowledge of the conditions existing in such provinces, and the methods in which overdues are calculated.

In the case of some overdue loans we observed that both the borrower and surety were dead. These loans should receive immediate attention. We recommend that the negligent panchayatdars should be made personally responsible, after enquiry, for the repayment of loans of this nature which have become time-barred. It should be noted that a society must now obtain an acknowledgment in writing relating to the liability, when a payment is made, in order to extend the limitation period.

We recommend that overdue loans should be transferred to a separate ledger, and that quarterly reports on them be submitted to the union and the central bank.

In our paragraph on liquidation we express the opinion that there is a large number of societies with heavy overdues, which should be rectified or liquidated without further delay.

Reserve fund.—In our paragraph on reserve funds we make suggestions regarding the future investment of these funds.

Liability of members.—In paragraph 50 we recommend that the liability of deceased members be extended to two years.

Money-order commission.—Co-operators have for sometime past been urging that, in addition to the facilities at present granted by Government to societies for remitting money to banks, an exemption from payment of money-order commission on monies transmitted through the post office should be allowed. We understand that this concession is already granted in the Punjab and Bombay. We recommend that it should also be granted in this Presidency.

32. *Urban credit societies—Urban banks.*—Urban banks form much the most important class of urban credit societies. The liability of their members is limited, and in consequence the problems they offer have little in common with those of unlimited liability societies. The sufficiency of the security for each individual loan is of the utmost importance, as on it alone repayment depends. Further, limited liability does not provide the incentive for the interest of the members in the financial affairs of each other which is secured, or should be secured, by the mutual responsibility of unlimited liability: in any case the large number of members in most urban banks precludes the possibility of such mutual interest to any great extent. In fact the only apparent difference between these banks and joint stock banks is that borrowers from the former are compelled to purchase shares, in respect of which they have votes at general meetings and receive dividends out of the profits.

Management.—From these considerations it appears obvious that efficient and at any rate semi-expert management is an essential. In some of the banks we visited this condition did not appear to exist.

Membership.—In many quarters it has been proposed to restrict the number of members in urban banks, so that (1) the management may have more personal knowledge of the borrowers, and (2) the members may have some mutual knowledge of each other. As indicated above however we think that the business of these banks is more technical than personal, and that mutual knowledge among members is of little consequence when the liability is limited. Technical knowledge is best obtained when adequate payment is made for it, and the larger the bank is, the larger are the funds available for such payment. The impressions we obtained during our tours support this argument: we found banks with 2,000 members doing very well, while many of the small banks were not prospering.

Borrowing power is limited to five times the paid-up capital plus reserve fund. We do not recommend any change. We notice that urban banks are discouraged from borrowing from central banks

to induce them to take local deposits which would not be available for central banks. While we agree that this policy is generally sound, we see no reason why central banks should not finance when necessary urban banks on the security of their promissory notes, backed by the security of the individual promissory notes of their members.

Deposits—(*a*) *Current accounts.*—Some banks appear to be doing very precarious business under this head. They are taking large sums from non-members at unremunerative rates of interest calculated on the daily balances. We think that current accounts should only be opened for members, and that interest should be calculated on the minimum monthly balances, as is done by joint stock banks. We also suggest that a small text book be prepared dealing with the law and practice relating to cheques and current accounts, and supplied to all urban banks.

(*b*) *Savings bank accounts.*—We observed that deposits of this nature are small, though the facilities granted to depositors are generous. Such accounts, and any accounts which provide facilities for thrift, should be encouraged in every possible way.

(*c*) *Fixed deposits.*—We think that single fixed deposits for amounts large in proportion to a bank's transactions should be avoided especially from non-members. Depositors should be asked to split such amounts into smaller deposits for suitable periods with due dates synchronizing, as far as possible, with the dates when loan repayments are expected. As idle money will thus be avoided, banks may find it profitable to offer a slightly higher rate for such deposits.

The question of fluid resource for deposits is dealt with under that head.

Loans.—A large proportion of the loans given by these banks is on the security of mortgages: in fact some banks almost confine themselves to this business. In some cases decrees have been obtained on a very large number of such loans, but, owing to the difficulties of execution, no further steps have been taken. On the other hand, as the decreed rate of interest is much below the market rate, the borrowers have not made, and are not likely to make, any attempts to repay. We consider that urban banks should invest a much larger proportion of their money on the security of personal suretyship, and should pay much greater attention than at present to the repaying capacity of their members. The principle of investing the bulk of short-term money in short-term loans, the punctual repayment of which may reasonably be expected, should be carefully kept in view.

Accounts.—The ledgers should have the daily balances thrown out, and the interest calculated on the ' decimal product ' system. It will be necessary to supply product tables to each bank. This will effect a very great saving of time to the auditor, who will only have to check the interest instead of recalculating it, as in most cases at present. We also think that in general more attention should be paid to the form of the books and accounts, and more assistance in maintaining them given to bank officials by the department than is the case at present.

Balance sheets.—We think that balance sheets should show the deposits and loan instalments falling due each year, and also the extensions of loans granted and the overdues.

Supervision and audit.—It is clear from what we have said that we consider the supervision of urban banks to be a different problem from that of rural societies. If the efficient management we advocate is provided the need of supervision will not be so great. Further, the advice required will be more on technical than on administrative matters.

At present urban banks are affiliated to supervising unions, to which they pay the usual affiliation fees, subject to a maximum of Rs. 150. In however the section dealing with audit we propose that an audit organization be formed for central banks and such urban banks as desire to join. Urban banks which join this organization may disaffiliate themselves from a supervising union. In such cases the auditor, in view of his general experience in auditing other urban banks, should be well qualified to give advice and assistance. It will be necessary however for the Registrar to arrange to give such extra supervision as may be necessary in these cases : his supervision will be more necessary in the case of those urban banks which are not affiliated to this central organization.

Other urban credit societies.—These are generally special societies, formed for special classes of people, as Government servants, factory employees and the like. In most cases senior officials or employees take an active interest in these societies, and the department has little to do with them. In some cases instalments of loans, etc., are deducted from wages or salaries and paid to the societies *en bloc.* This practice can scarcely be termed co-operative, but in many cases it is a useful precaution, and enables societies, which otherwise would probably cease to exist, to function satisfactorily.

In a few instances societies of employees have adopted by-laws which provide only for deposits and not for loans. These are purely thrift societies, and in such cases a reserve fund is, we consider, unnecessary. In fact, the compulsory allocation of a portion of the

profits to a reserve fund, which can never be required, reduces the tangible advantages of membership, and therefore may discourage thrift, the object for which the societies are formed. We think they should be exempted from the compulsory maintenance of a reserve fund.

In other societies of this nature no provision has been made for savings bank accounts in the by-laws, and the members appeared ignorant of the fact that such facilities are possible. We think that the by-laws of all such societies should provide for savings bank accounts.

33. *Societies for the depressed, backward, and similar classes.*—The condition of these classes is peculiar. They are extremely poor and have no property which they can pledge. Their only asset is their labour and character, and these form the only basis for their credit. Co-operative activity, if only confined to credit, is of little value to them. Co-operation in their cases must be employed to stimulate thrift, to increase their earning capacity, and to secure for them a larger margin of income by better marketing.

Co-operative societies for these classes are unable in most cases to secure from the ordinary non-official supervising agencies the care and attention which are in their case peculiarly essential. The special problems which they offer centre round organization, supervision, and finance.

Since responsibility for the general amelioration of the condition of the depressed and labouring classes lies with the Labour Department, we consider that, in districts where that department is working, it should undertake all work connected with the organization and supervision of societies for those classes, as part of its general responsibility for them. The present Labour Commissioner desires to be relieved of all duties in regard to co-operative societies, except the task of stimulating and supervising them in a very general way. He would leave their actual management and supervision with the Co-operative Department, under which, he thinks, the special inspectors allotted for these societies should work. We however fear that, if those functions are entrusted to the Co-operative Department, they will not receive due attention, and that there is danger of their being neglected in favour of the easier and more promising work among the higher classes. We would therefore entrust, as at present, to the Labour Department the organization of societies and all duties of supervision, including the writing up of accounts when necessary. But the Co-operative Department should discharge the statutory functions of audit and liquidation. We consider however that, since in that case another Government department would be in charge of supervision, the audit might be only one final audit at the close of

the year : but it must be carried out by the regular staff of the Co-operative Department, and not, as in some districts at present, by the co-operative inspectors working under the Labour Department. The responsibility of the Labour Department should also extend to societies organized by missionary and other philanthropic bodies.

In districts where the Labour Department is not at present working there are two classes of societies to be provided for, those directly supervised by a missionary body or a recognized philanthropic agency, and those in charge of the Co-operative Department. We consider that all should be under the Co-operative Department until the Labour Department commences operations in the district, when they should be transferred to it.

Kallar societies and Criminal Tribe societies are under the Labour Department, and should so continue. The few Kallar societies in Tanjore which are not under the Labour Department should be transferred to it.

On the same principle, we consider that the Fisheries Department should be responsible for all fishermen's societies in districts where that department is sufficiently organized to undertake that responsibility, and that the special inspectors allotted for the societies should work under it. In districts where this is not the case, the societies should continue under the Labour Department until the Fisheries Department is in a position to undertake their supervision.

Each department should be made to realize fully its responsibilities : shortage of staff has at present, we consider, caused insufficient appreciation of them.

The audit of all societies should be carried out by the regular staff of the Co-operative Department. A copy of the auditor's report should be sent free of cost to the District Labour Officer where such officer exists. In the paragraph dealing with audit we recommend that financing banks should be given, free of charge, copies of audit reports on all affiliated societies. Should that proposal not be approved in the general case, we strongly urge that it be given effect to at least where these societies are concerned.

Depressed class societies should be affiliated, wherever possible, to existing unions of caste societies as is the rule at present. It will be an important duty of the officials of the Labour Department to educate these societies, so that they may be fitted to take their proper place in the unions. As a means to this end, and also to protect the interests of these societies till they are able to look after themselves, the District Labour Officer should have a seat on the governing body of the federation, and the inspector concerned a seat on the governing body of the union. We strongly disapprove of any policy of segregating the societies for depressed classes, but we are not opposed

to the organization of separate unions for them in localities where a sufficient number of such societies can be formed within a very small area. We fear that the experiment of forming one separate union for a whole district, which is being tried in one instance, is not likely to succeed, and we do not think that it should be imitated. Applications for loans to societies should continue to come through the District Labour Officer or Deputy Registrar, with the recommendation of the union, to the bank.

There should be a uniform scale of one inspector for every 25 depressed class societies for all districts, including Madras City. We consider it inadvisable to reduce the number, as is the present rule, when the total number of societies in a district exceeds 100. The individual societies in a district require the same amount of supervision, whether the total number in the district is less or more than 100: the only real result of the present rule is that, the more societies there are in a district, the less they are supervised.

Where a district has a District Labour Officer the inspectors should work under him. Where there is no District Labour Officer, they should work under the Deputy Registrar, forming a special staff under him for the supervision of this class of society. They should on no account be utilized for work connected with any other class of society.

In view of the very special work required of them, inspectors should have better qualifications than inspectors in the ordinary line in the department. We recommend that they should be agricultural graduates on a scale of Rs. 80—120. They should undergo, in addition to ordinary co-operative training, a special course of training for about twelve weeks, calculated to fit them for dealing with practical problems relating to better farming, supplementary occupations, irrigation, joint purchase and sale, and especially thrift. The course should be prescribed by a Board consisting of the heads of the Labour, Co-operative, Industries and Agricultural Departments or their nominees, one representative of the Provincial Co-operative Union, and two of the Christian Central Co-operative Bank, one of whom should ordinarily be Secretary to the Board. Candidates should be on probation until they have undergone this course and successfully passed an examination at its conclusion. Special attention should be paid to testing a candidate's suitability for work among depressed classes. The examining board should consist of the Labour Commissioner, the Registrar, or their nominees, two members from the Christian Central Co-operative Bank, and one from the Provincial Co-operative Union.

The scope for the spread of the co-operative movement among these classes is practically unlimited. Their economic condition calls urgently for this development, but we consider it extremely

dangerous to encourage artificially or hastily the spread of the movement among them: we prefer that it should grow naturally through the steady efforts of a properly trained staff. We consider that a staff, with the special qualifications and training which we have proposed, will meet the need.

The present guarantee of intensive supervision given by the Labour Commissioner to the Christian Central Bank satisfies neither the bank nor the Commissioner. The only real safeguards for the bank lie in proper effective supervision and adequate knowledge of the actual work of societies. We consider that our proposals for adequate staff, adequately trained, will ensure effective supervision, and that our proposals for the supply of audit and inspection notes to the bank will provide it with adequate knowledge. The bank will, like other central banks, also have responsibility for inspecting the societies financed by it. If these proposals are agreed to, the certificate should, we consider, be abolished. It follows that the bank must have absolute freedom to refuse to finance any societies of which it considers that the conditions are unsatisfactory.

The Christian Central Co-operative Bank occupies a peculiar position, and renders special service to special types of co-operative societies. It is practically the Central Bank for depressed class and labour societies throughout the Presidency. Under departmental rules all societies of these classes are affiliated to this bank. This arrangement must continue, as these societies cannot at present expect to receive similar financial facilities from the central banks in their districts.

Finally, the bank was formed with the intention that it would, in addition to the provision of ordinary credit facilities, make finance available to societies through agencies engaged in schemes for the general economic uplift of the depressed classes. We hope that in the future this part of its policy will be more vigorously pursued than in the past.

34. *Agricultural demonstration and supply societies, and connected matters.*—Agriculture is by far the most important industry of the Presidency, and that great benefit can accrue to the agriculturist by proper application of co-operative methods is certain. Societies for better farming, for the co-operative purchase of manures, ploughs and the like, for the co-operative sale of crops, for the provision of finance to enable the cultivator to withhold his crops from the market at harvest time (this is the particular function of loan and sale societies, which are separately dealt with), all offer means of increasing the cultivator's income. But these societies are not easy either to organize or to administer successfully.

An account has already been given of the present activities of the co-operative department in this direction. The results are encouraging: but we consider that very much more remains to be done. We attach such importance to this matter generally that we recommend that a special officer of the grade of Deputy Director of Agriculture should be placed entirely under the Registrar: his duty would be to encourage, improve, and increase by all possible means the existing societies, to add to their numbers, and to explore all other forms of co-operative activity which would better the lot of the cultivator. He should devote particular attention to the formation of societies amongst agriculturists for the joint marketing of their produce, in order to eliminate the middleman's profits.

This officer should be carefully selected, and should work so far as possible through the Registrar's ordinary staff.

We have considered the possibility of the formation of co-operative societies to consolidate fragmented holdings : such societies have been very successful in at least one other province. The conditions however vary from province to province, and we think that in Madras as a whole the problem is not so acute as elsewhere: in most districts of the Presidency the difficulties of such societies would be very great. But if a scheme of such consolidation on an entirely voluntary basis, offering a prospect of success, is forthcoming in any district, all reasonable assistance should be given to it. We strongly disapprove of legal compulsion in any form in the matter.

35. *Loan and sale societies.*—We consider that loan and sale societies, as described in paragraph 9, offer a very promising means of increasing the wealth of cultivators, by enabling them to withold their crops from market till they can obtain reasonable prices. The prices ruling for agricultural produce for a short period after harvest are usually abnormally low, as ryots who have no financial facilities are forced to sell their crops to pay the money-lenders' dues and to provide for other expenses. We consider therefore that every assistance in their formation should be given by all concerned.

We have been told that in some cases these societies are being utilized by middlemen for whose advantage they are not intended. We recommend therefore that a by-law should be adopted limiting loans to produce grown by members.

These societies are formed on a limited liability basis, and central banks should therefore see that the security is effective from all points of view. The following precautions appear necessary :—

(1) the produce must be examined as to its quantity and quality, and it must be subsequently watched to see that deterioration does not set in: this is particularly necessary in the case of groundnuts;

(2) the amounts of loans sanctioned must be fixed as a proportion of the value of the produce, so as to provide adequate margin for contingencies. Possible fluctuations in price need special attention, and each class of produce needs separate consideration in this connexion;

(3) all produce should be securely stored under double lock and key, and one key should be with the central bank;

(4) hazardous and non-hazardous produce should be stored separately;

(5) insurance should be effected at least on hazardous produce. It should be on the full value of the produce stored, and not on the amount of the loans, as, if it is on only a portion of the value, insurance companies would pay only a corresponding proportion of any loss. An insurance register should be opened showing the daily balance of (1) hazardous and (2) non-hazardous produce on hand. It should also show the policies effected and lapsed, and the balance of insurance outstanding under each of these heads;

(6) insurance policies should be in the names of "the central bank and of the loan and sale society for their respective rights and interests", and should be held by the former;

(7) the central bank should inspect the produce and verify the insurance periodically.

Loan and sale societies which are unable to obtain finance from a central bank should be allowed to finance themselves from commercial banks.

Many witnesses stated that Government loans for the provision of godowns are a necessary precedent to the increase of these societies. We think this difficulty is over-emphasized, as suitable godowns are in many cases available for rent: but in some places such facilities appear necessary.

36. *Weavers' societies.*—Weaving is, after agriculture, one of the most important industries in the Presidency. Weavers however as a class are peculiarly difficult to deal with owing to their ignorance and penury. Further the introduction of the fly-shuttle loom has, we learn, greatly increased the production of cloth, and this is one reason why the supply has at present outrun the demand: the greatest difficulty that confronts the weaver at present is to find a market for his cloth.

The help given by the co-operative movement to weavers so far is negligible: most of the weavers' societies are doing little, if any, work. Yet that some, at any rate, of the weaver's troubles can be lessened by the application of co-operative methods is certain. We think that Government should take special measures to help this community: we do not consider that the steps so far taken to that

end are adequate: a knowledge of weaving, and of the many connected problems, cannot be acquired in a few months' training. From our observations we consider that the key to the problem lies in (*a*) marketing the textile products, and (*b*) the possibility of guaranteeing quality to the agencies which undertake the marketing. These indicate certain practical difficulties of organization and supervision, which cannot be met by the Co-operative Department except with expert assistance. We therefore recommend that a textile expert should be engaged in the first instance for five years, and employed directly under the Registrar. His functions would be to help the existing weavers' societies in every way, and to organize new societies in suitable places. Among his most important duties would be to study the demands of the public, to assist the weavers in getting cheap yarn, and to dispose of their manufactured goods. In the last matter the aid of the Triplicane or other large stores might well be invoked.

37. *Building societies.*—We notice that most societies have not adopted the equated system of repayment. Repayments under this system in the initial years are considerably smaller than under the alternative system, and its adoption would enable many persons who cannot meet the big repayments in the early years required by the alternative system, which are often much in excess of rental values, to share in the advantages offered by these societies. One reason given us for this is that members often desire to make payments in advance of the due date, and that, if they do so under the equated payment system, no benefit accrues to them. We recommend that a rebate of one half per cent below the rate charged should be granted for each complete month to members who make payments in advance, and that Government should grant a similar rebate to societies.

The department assumes that all members of such societies are town-dwellers, and can pay their instalments monthly. It has in consequence laid down a rule that repayments must be fixed monthly. We have however found that in many societies there are urban members with rural interests, and the necessity for allowing annual instalments has been strongly urged by witnesses. We consider that, when a society desires it, option should be given to allow members to pay monthly or annually, as may be suitable to each individual case.

We recommend that societies should give their members as much assistance as possible in the preparation of plans and the construction of houses: little help seems to be given in this matter at present. This will be facilitated if societies draw up definite building programmes from time to time: an additional advantage of this

arrangement would be that materials could be purchased jointly in respect of the houses to be built under each scheme, and some saving in cost thereby secured for members.

Building societies should be relieved of the burden of acquiring land for roads, and of constructing roads and side drains.

We consider that in certain instances insurance against fire is desirable. The Registrar should have power to insist on insurance when he thinks necessary, and wherever possible in such cases he should arrange for joint insurance.

Since the rate of interest on capital has fallen, and Government are now able to borrow at lower rates than formerly, the ordinary rate of interest on loans by Government to these societies may well be reduced by one half per cent.

We are of opinion that the rate of penal interest (2 pies) is too high, and suggest its reduction to $1\frac{1}{2}$ pies.

We notice that the ledger prescribed for the ordinary primary society is in use in several building societies. This form of ledger is quite unsuitable, and should be replaced. The department should give more advice and assistance to societies in the keeping of their books than at present.

38. *Stores.*—Some stores are working well, but the condition of many is unsatisfactory. For this there are various reasons: the most important of them are the absence of competent management, a lack of loyalty to their stores on the part of members, and the fact that some stores are located in places which are unsuitable or too small. Nevertheless the success of the Triplicane Stores shows that, under suitable conditions, co-operative stores can be both useful and successful. But we emphasize certain points in connection with these institutions. Expert management is for them a necessity, and, to provide for this, a large turnover is required. It follows that there is little likelihood of their being established successfully in villages or even small towns. The evidence we have obtained shows clearly that the ordinary villager finds no need to join an organization of this kind, and that it has little chance of success except where a special potential clientèle in the shape of a considerable population of Government servants, middle class families, or big individual customers, as devasthanams or colleges, exists. This factor also tends to confine the possibility of success to stores established in the larger towns. To meet the needs of the village population, a joint system of purchase on indent appears to us to have much greater chance of success, and to be fraught with considerably less risk. This system is already working in some societies with success.

39. *General.*—Much less has been done in non-credit work generally than in credit work. The former however is far more difficult than the latter, and in no province of India, so far as we are aware, has non-credit work as yet made as much progress as credit work.

We understand that an officer of Government is now engaged in making a survey of the cottage industries of the Presidency. We suggest that his report should be studied jointly by the Departments of Agriculture, Industries, Co-operation, and Labour, and the Registrar-General of Panchayats: concerted action on some, at any rate, of the recommendations should be more fruitful than independent action.

We desire to emphasize an opinion, which is based on the evidence of many witnesses, that not enough is now being done to co-ordinate the work of the "nation-building" departments, which do not, we consider, at present realize sufficiently what a powerful instrument for the furtherance of their work is available to them in the co-operative movement. We therefore suggest that Government consider the desirability of directing district officers of the Co-operative, Agricultural, Veterinary and Industries Departments to have periodical conferences, at least once a quarter, to co-ordinate the activities of their departments, and to submit reports to Government of the progress made therein. The presidents of central banks and federations should be invited, whenever possible, to attend these conferences.

Rural reconstruction.—Since the Maclagan Committee reported a new slogan has come into vogue in this Presidency and also elsewhere in India. It is "rural reconstruction." While this term is used in diverse meanings, and is generally understood in a vague and indefinite way, it is undoubted that it stands for a considerable amount of actual service that is being attempted in many parts of the country, with varying success. With a certain amount of attention the movement, at present in an incipient stage, to which the term refers, can become an effective avenue for social service with the help of an increasing number of voluntary workers. Much loss of time and energy which now occurs will then be prevented, and the consequent loss of enthusiasm avoided.

Those who speak of rural reconstruction, whatever they mean by it, all agree in thinking that the co-operative method is the key to their work: what they mean is that co-operation is not enough, that the ryot needs a comprehensive service, much of which should be done through the co-operative method. The assistance to this new movement, which is now called for, must issue therefore from the Co-operative Department, and by all the other Development Departments of Government in close co-operation.

40. *Central banks—Constitution.*—As already stated, at their inception the capital of central banks was entirely held by individual shareholders. Affiliated societies were subsequently allowed to hold shares, and a policy developed under which no new shares were issued to individuals. The total elimination of individual shareholders is still considered in many quarters to be the ultimate aim of the movement. In effect this would place the control of the deposits in the central banks entirely in the hands of the societies which borrow them. The evidence we received is almost unanimous against such elimination in the near future, and we are strongly of opinion that no further steps should be taken in this direction for some time to come. We think that fresh enquiry will be necessary before the resumption of such a policy is considered, and that it should include an examination of the success or otherwise of the total elimination of individual shareholders in other provinces or countries where it has taken place, combined with the conditions existing, and the relations of co-operative to commercial institutions in such provinces or countries.

The present constitution of central banks provides for representation of every affiliated society and individual shareholder on the general body. The board of management is comprised of a representative from every supervising union and a fixed number of representatives elected by the individual shareholders. This results in an increasing number of representatives as new unions are formed, and a constantly diminishing ratio of individual to union representatives: further, in many cases the board of management is already unwieldy. We recommend that the board be limited to 21 members, 14 being representatives of unions and 7 of individuals, i.e., a ratio of 2 to 1. All central banks should conform to this ratio. In practice, as the individual shareholders mostly reside in towns and union representatives in the district, the former have power disproportionate to their numbers. We also recommend that the representatives of the individuals on the board of management be elected by the union and individual members of the general body jointly, as we consider that this practice will tend to more harmonious working. With regard to the union representatives on the board of management, we propose that each district should be divided into areas, and that members of unions in each area should elect common representatives every two years.

We recommend that central banks be allowed to co-opt members to the board of management who have special knowledge which may prove useful: such co-opted members should have no votes.

We are very strongly of opinion that the old by-law providing for a separate secretary and treasurer should be introduced in banks where it has been changed: the danger of the same man holding both posts has been very forcibly brought home to us.

In general, we are in favour of a paid full-time secretary, but we have noticed that one or two banks with honorary secretaries are amongst the most efficient: as an alternative therefore we propose a qualified and competent manager on an adequate salary in cases where this is preferred. The same man should not be secretary of the central bank and of the federation, but we think that the president, where possible, should be common to both.

Borrowing capacity.—The borrowing capacity of central banks was increased from eight to ten times their paid up share capital plus reserve fund by G.O. No. 1381, Development, dated September 22nd 1926. The Maclagan Committee recommended eight times as the maximum "in the interests of depositors." We consider that no further increase should be made.

Custody of cash.—Rules should be adopted requiring that the cash balance should be kept in a fire-proof safe under the double lock of two members of the executive committee, or of one member of the committee and the paid secretary or manager. We observed in two instances that the cash balance was kept in the secretary's house: this practice is extremely objectionable. Cashiers should give security for the amount of till money which they are allowed to hold, and the secured amount should not be exceeded. Central banks should not leave cash with primary societies, as is the practice in at least one district.

In the paragraph on audit we recommend that cash balances be checked in detail at each audit. This necessary precaution has not been taken in the past.

Loans and cash credits.—Accounts should be kept in such a way that the repayments in respect of each promissory note are clearly shown.

Necessary attention does not appear to be paid to security forms in all cases: thus we think that promissory notes deposited as security for cash credits should be accompanied by a "continuing guarantee agreement": this does not seem to be done. Legal advice should be taken on the security forms adopted.

Central banks should pay much more attention than at present to the fixing of proper periods for loans suitable to the purpose and to the repaying capacity, and also of convenient dates for repayment, which would usually be within three months after harvest. Very little attention seems to be paid to these points at present, and this is one of the causes of the increasing overdues. In the paragraph on long and short term loans we make recommendations which will, we feel confident, go a considerable way towards the rectification of these defects. Central banks should pay special attention to the due dates of short-term loans: if they are not paid, enquiries should at

once be made as to the nature of the crops. If they have failed, extensions should be granted freely: if not, repayment must be insisted on, failing which no further short-term credit should be granted, and the outstanding loans must be liquidated by taking whatever steps are necessary in the matter.

Central banks which grant loans to societies organized for labour should secure themselves by arranging that payments for contracts be made direct to them, and not to the secretaries of the societies concerned.

We consider that the rates of interest on loans to societies should be reduced, wherever possible, in present circumstances, to $7\frac{1}{2}$ per cent, so as to increase the margin available for working expenses and reserve funds in societies.

Deposits.—We consider that in taking current accounts central banks should exercise more caution than they do at present. In some cases we have found that they earn little or no profit on these transactions, and have run considerable risks in taking large sums at too liberal rates of interest. Further, the maintenance of current accounts requires a knowledge of the law and practice relating to cheques etc., which neither the central banks nor the department usually command. We think that the provision of a text-book containing the necessary information on these points is very advisable: the contents of this book and also of departmental circulars on legal points should be verified by an expert banker and lawyer.

In the paragraph on fluid resource we make certain proposals regarding the amounts and due dates of fixed deposits, and we make recommendations regarding the standard of fluid resource. In the paragraph dealing with deposits of local bodies we stress the special precautions necessary for these deposits, and suggest a special arrangement for fluid resource in their case.

Inspection of societies.—In our paragraph on supervision and inspection we recommend that these functions be sharply distinguished, and that the responsibility for inspection of societies be laid on central banks.

Audit.—In our paragraph on audit we propose that central banks should in future pay both for their concurrent and final audits, and suggest the formation of a central audit organization.

Accounts.—We consider that in many cases economy of labour may be effected by improvements in the form of accounts.

Loan and sale societies.—Under this head we discuss the points to which attention should be given when central banks grant loans to these societies. We consider that central banks should do all they

can to encourage the formation of such societies, as a safe outlet for their funds.

Dividends.—We consider that, if the dividend paid in any year falls below the maximum, the shortage may be made up in subsequent years when the profits allow. This is at present only permitted when a bank is liquidated. Such procedure will give an incentive to the collection of overdue interest.

Overdues.—The figures for overdues shown in the Government statistics do not entirely represent the correct position. On the one hand extensions are not given to societies on any co-ordinated plan, and we consider that a large portion of the overdues might have been legitimately extended: further, in one or two districts the old system of treating the whole loan as overdue, when one only instalment has not been promptly paid, still exists, and this inflates the figures. On the other hand, we have found existing in more than one bank the very reprehensible practice of granting wholesale extensions which have not been applied for by the primary societies, and in one case a radical redistribution of instalments was also made for the sole purpose of reducing the overdue figure. In some banks also book-keeping ruses have been resorted to, such as keeping the books open for some days after June 30th, and in others collecting agents have been sent to the societies just before the close of the financial year. The former practice should in every case be prohibited, and the latter in cases where collection at this time is inconvenient to the ryot. Central banks should be compelled to keep a register recording the history and financial position of each affiliated society. This record should be written up annually, in such a way that the position of dormant as well as active societies is continually under review, and any steps that appear advisable for recovery of overdues taken without undue delay: to assist in this, overdues may be transferred to a special ledger. To permit a dormant overdue to run on without a constant review of the position is very dangerous, as members of the society may resign, or alienate their property, and the security on which the loan is based rapidly diminishes.

Reserve funds.—We deal in a separate paragraph with the investment of the reserve funds of central banks, and with the deposit of the reserve funds of societies in those banks.

41. *The Madras Central Urban Bank.*—The position of the M. C. U. B., the apex bank, differs materially from that of the primary society or central bank. The primary society should rely in its working on local knowledge of its borrowers, and on the fact that the mutual responsibility of its members under unlimited liability provides an incentive to supervision of members by members: this is the true co-operative idea. In central banks the members have adequate knowledge of only their own areas, and but little of others;

further, there is limitation of their liability to their share capital, and in consequence no financial incentive to a feeling of joint responsibility. In the M.C.U.B. the component central banks are so far from each other, and from Madras, that, apart from the information supplied by the department, the bank has in a very large measure to rely on the balance sheets and returns provided by central banks: its management therefore calls for practical training and financial knowledge of a very high order.

Its constitution is now as follows:—

	RS.
One hundred and eighty-four individual shareholders with one share each, holding shares value.	18,400
Thirty central banks holding shares value ..	5,68,900
Twenty-nine primary societies holding shares value	8,470
	5,95,770

It will be noticed that, although individual shareholders preponderate, their financial interest is small: there is therefore no incentive to dividend hunting.

The general body meets once a year, when voting is according to shares held.

The board of management consists of 35 members, 5 of whom are elected by the individual shareholders and 30 by the central banks: each bank elects one in the manner provided in its by-laws. The board meets twice a year, when each member has one vote.

The executive committee consists of nine members (including the President and Vice-President) elected by the board of management from among themselves. The by-laws provide that a majority shall be representatives of central banks, and that the President and Vice-President and at least one of the members shall reside in Madras City. The committee meets ordinarily once a month. The President has been given power to sanction loans up to any amount between meetings of the committee: such loans are ratified at the next meeting.

In general, our remarks regarding individual shareholders in the paragraph on central banks apply in greater force to the M.C.U.B. We do not however think that any definite ratio of central bank to individual representation need be fixed: at present most of the representatives of central banks are individual representatives of these banks, and are therefore accustomed to bear in mind the interests of depositors. Most of us think that the present number (5)

of representatives of individual shareholders should be increased, so as to provide a wider field of choice for the members of the executive committee. Some witnesses are of opinion that the board of management is as a whole unwieldy, but we think this matter may be left to the good sense of the bank itself. The present management appears to us to be efficient: after our remarks above, we need not further emphasize the importance of this being continued.

As in the case of central banks, we consider the M.C.U.B. should be allowed, and indeed encouraged, to co-opt to the board of management members who have special knowledge which may prove useful: such members should have no vote.

We recommend that power be given to the M.C.U.B. to inspect central banks financed by it : in fact the responsibility for such inspection should be laid on the bank.

We are of opinion that its present limit of borrowing power, viz., twelve times its capital and reserve, should not be further increased.

We consider that the Christian Central Bank may well be affiliated to the M.C.U.B. It is at present the only central bank not so affiliated.

Attention should be given to such further recommendations in our paragraph on central banks and in other paragraphs as apply to the M.C.U.B.

42. *Land mortgage banks—Central land mortgage bank.*—We are of opinion (and the experience gained so far supports it) that very slow progress will be made unless a central land mortgage bank is formed in Madras to float debentures on mortgages transferred to it by primary land mortgage banks, and to finance the latter out of the proceeds of such debentures. The total value of such debentures should not exceed 50 per cent of the value of the total properties mortgaged by the members of primary land mortgage banks.

The central bank should be constituted with primary land mortgage banks and individuals as shareholders: the latter should not be allowed to borrow. The dividend should not exceed 7½ per cent.

There should be a trustee or trustees for debenture holders to ensure that the central bank fulfils its obligations to them : debenture holders should also be represented on its management.

A reserve fund should be provided, and should be built up as rapidly as possible.

The borrowing power of the bank should be twenty-five times its paid-up capital and reserve fund.

We recommend that interest on the debentures issued for the first five years should be guaranteed by Government, who should be represented on the bank. The debentures should be made trustee investments, as in Bombay.

We consider 25 to 30 years a reasonable period for these debentures : the maximum period of loans should be 30 years.

The rate of interest on loans should not exceed 9 per cent, and we recommend that the equated scheme of repayments be adopted.

We are of opinion that the bank should only finance primary land mortgage banks, and not primary co-operative credit societies. It should not accept short-term deposits.

The by-laws of the bank should provide for the constitution of a sinking fund. A proportion of the debenture redemption money must be fixed for each year : the proportion will naturally depend upon the length of the period and other features of the debentures. The monies so coming in may be invested where a profitable investment on which the bank does not lose is available. We visualize this contingency as not being improbable : if debentures are floated at 5 or 5½ per cent for 20 or 25 years, the chance of gilt-edged securities themselves being obtainable at similar rates is by no means negligible. The bonds of local bodies or other quasi-official corporations which may be certified by the Registrar as safe investments may be available from time to time at the same, if not higher, rates. Failing such investments, if its debentures are available for sale in the open market, the bank may purchase them not above par. If they are not so available, it may repay debenture holders in some systematized manner. We consider the following to be the best method. Each year the bank should issue six months' notice of the quantity it wishes to redeem. If a sufficient number of debentures is not voluntarily forthcoming for redemption, the debentures up to the required amount may be retired by drawing lots. The bank may offer cash or new bonds up to the value of the bonds so redeemed, but the debenture holders should have liberty either to accept or refuse the new bonds, and to demand payment in cash.

Primary land mortgage banks.—As stated in our paragraph on long and short-term loans we are of opinion that every effort should be made to form primary land mortgage banks, wherever possible, to provide long-term credit for the ryot. At present ten are in existence, of which only three are doing real work. Details of these banks have been given already in Chapter II.

The investigation of titles, valuation of properties, and the assessing of the credit of borrowers with special relation to their repaying capacity, are the most important functions in the working

of primary land mortgage banks, and constitute the factors which determine their soundness. The proper discharge of these duties requires revenue experience, legal equipment, and business capacity. We recommend that in at least the initial stages, until the banks are able to secure the services of competent paid officials, Government should place at the disposal of each primary land mortgage bank the services of a competent officer to value properties and assess the credit of borrowers. His work would, of course, be supervised and checked by the directors. Arrangements should be made by the banks for the examination of title-deeds by competent legal practitioners. We consider that, as the work involved is of a highly technical nature, banks should, as far as possible, rely upon a paid staff for the transaction of their business.

The consequences of default are serious, and very great attention must therefore be paid to the repaying capacity of borrowers: some workable rules which will ensure this precaution should be made and strictly observed.

We consider that the maximum borrowing power of members is at present fixed at too low a figure (Rs. 2,000), and that the amount should be raised to Rs. 5,000, although the interests of small borrowers should not be neglected. We also think that the present limit of operations to a radius of seven miles is too small, in view of the fact that we are recommending paid agency, as the operations of a bank covering this area would provide little for administrative expenses. We agree with the limit fixed for loans, which is 50 per cent of the value of the land.

The by-laws of primary land mortgage banks should provide that loans should not be recallable so long as the conditions laid down are fulfilled by the borrowers: the freedom however of borrowers to repay in whole or in part on notice of three to six months should be secured.

Possible defects in the security of land mortgage banks may arise for the following reasons:—

(1) The possibility of mortgages being annulled under the provisions of insolvency law: the present position and the precautions to be taken, if any, should be investigated by competent legal authority;

(2) the effect of the provisions of the Land Improvement Loans Act (section 7) and of the Agricultural Loans Act: care should be taken that subsequent loans made by Government do not take priority over earlier loans given by land mortgage banks, and such amendments, if any, as are found desirable should be made in the law.

The desirability of amending the provisions of the Transfer of Property Act, so as to confer upon land mortgage banks the power of sale without resort to courts, and of foreclosure, was suggested by some witnesses. We gave careful consideration to this suggestion, and are not in favour of giving the power of foreclosure. We are of opinion however that the power of sale is necessary, if debentures are to be popular and marketable. Land mortgage banks are being started to rescue the ryot from the money-lender: this object will be frustrated if banks are handicapped in their operations by delay and difficulty in suits and execution proceedings to recover mortgage debts. Rules should however be made for the issue of due notice of the intention to exercise the power of sale, for due publicity of all proceedings connected with the proclamation and conduct of the sale, and for the postponement of sale when the highest bid for the property is not adequate. We further recommend that the sale should be conducted through the agency of the Registrar, or an officer authorized by him, or such other officer as Government may prescribe.

We consider that the dividend of primary land mortgage banks should not exceed 9 per cent, and that every effort should be made to build up adequate reserve funds.

General.—It is desirable to pass a separate legal enactment dealing with land mortgage banks, as they differ materially from co-operative credit organizations: if the transactions of such banks assume large proportions this will undoubtedly be necessary.

If our proposals are adopted, we feel sure that large funds of Indian insurance companies will be invested in the debentures of the central land mortgage bank. We understand that these companies suffer from a lack of suitable mortgage investments, which form a large portion of the investments of insurance companies in England. We consider that Government should take all possible steps to assist in this direction.

CHAPTER IV—PROBLEMS AND PROPOSALS—CONTINUED.

43. *Deofficialization.*—A few remarks are necessary on the question whether the movement should be more completely "de-officialized" than is the case at present: it excites much interest in some quarters.

The point was specifically referred to in our questionnaire. Most witnesses replied to the question in the affirmative, but added the words "not at present." So far as credit work is concerned, the Registrar has at present, as we have already shown, hardly any staff to discharge other than his statutory duties of registration, audit, liquidation, and the like: indeed he finds considerable difficulty in doing so. As to non-credit work, practically no witnesses asked that it should be handed over completely to non-officials.

We agree that the ideal to be aimed at is for Government, subject to the due execution of their statutory duties (of which they cannot divest themselves), to permit the control of the co-operative movement to devolve on non-officials. But the time for putting the ideal completely into practice has not yet come.

A withdrawal from supervision on the part of Government took place in 1925–26, before adequate provision has been made for non-official agencies to take over the work. This has, we consider, been responsible for much of the confusion which exists at present in the movement.

We consider that the Registrar should, not less than once a year, arrange periodical conferences to be attended by selected officials of the department and by non-officials interested in the working of the co-operative bodies, for the discussion of important matters connected with the movement. This practice was in vogue formerly, and may well, we consider, be revived. Such conferences would serve the twofold purpose of disseminating correct ideas upon co-operative affairs among officials and non-officials, and also of keeping the Registrar in touch with non-official opinion upon co-operative problems of the moment. No important change in policy should be embarked on by the Registrar without prior consultation with non-officials, such as the board of management of the P.C.U.

44. *Supervision and inspection.*—We have given a great deal of consideration to the very important problems involved in supervision and inspection. An account of the development of these functions and of the agencies entrusted with them is given in Chapter II. We have arrived at the conclusion that failure to

distinguish inspection from supervision, and the rights and responsibilities involved in this connection, have been largely responsible for the friction, amounting in some cases to ill-feeling, which has been gradually growing between different co-operative organizations in certain districts.

Inspection involves an enquiry into the financial status of a society. This is obviously within the rights of the financing central banks: we go further, and place it amongst the banks' responsibilities.

Supervision involves constant administrative assistance in routine work, advice on financial matters, and general guidance, both from the business and the co-operative aspects. Unions formed and controlled by the societies themselves provide the ideal organizations for this purpose.

We now deal more particularly with each of these two functions.

Inspection.—Central banks should be provided with audit reports and with reports from the unions. In our paragraph on audit we recommend that the former be supplied free of charge. If there is anything needing enquiry in these reports, or if for any reason whatever the bank desires to do so, it should make its own detailed enquiry into a society's affairs, either by one of its directors or by its own paid inspector. It should then take such steps as it desires to safeguard its financial interests. In the first instance this should be done through the union or federation, but, if the necessary action is not undertaken by these bodies, the bank should address the Registrar in the matter, who should either empower the bank to take the necessary steps itself, or act in such way as he thinks fit.

Supervision.—In some provinces this function is performed by the banks but we do not consider this to be the ideal arrangement.

The evidence we received, including that from most of the banks themselves, was strongly in favour of vesting the duty in unions, as at present. A very large number of unions are not now functioning efficiently, but we consider this is largely a question of funds, regarding which we make proposals later. We have been impressed by the fact that a large number of very useful rural co-operators are not at present in the unions: we recommend that a system of co-option should be introduced and encouraged in every possible way.

The responsibilities of unions should include the following:—

(1) to check all cash book, ledger etc. entries, verify vouchers, and check interest calculations;

(2) to ascertain that loans are granted for proper purposes and on adequate security, and are paid to the proper parties: and that the time for repayment is fixed with reference to the ability and convenience of the borrower;

(3) to examine repayments to see that there are no book adjustments;

(4) to see that extensions are given when necessary, and only when necessary;

(5) to see that panchayatdars do not take advantage of their position by benami loans or otherwise;

(6) to see that general body meetings are duly held;

(7) to see that office-bearers and members understand their rights and responsibilities, and take a proper interest in their society;

(8) to rectify any irregularities brought to light in the audit reports; and

(9) to prepare the statistical returns, if necessary.

The supervisors employed by unions are in a large number of cases inefficient. The salary offered is usually small, and there is little security of tenure : the position must therefore be made more attractive if better men are to be obtained. We are proposing the strengthening and better distribution of supervision funds to enable the payment of higher salaries, and also the formation of district cadres of supervisors to provide greater security of tenure. The latter course will also meet a difficulty on which stress has been laid by most witnesses, namely the adequate supervision of the societies to which office-bearers of unions belong: it is for many reasons unwise that this should be undertaken by supervisors, the control of whom is vested in such office-bearers. Members of governing bodies of unions should of course themselves frequently visit affiliated societies in addition to the supervisors. A report of each society should be prepared at least once a year by the union, and copies forwarded to the central bank and the Deputy Registrar. As stated in our paragraph on audit, many of the questions contained in the present audit report more properly pertain to supervision, and may be embodied in the supervison report, which should be utilized by the audit staff in their preliminary audits.

Federations.—As stated in Chapter II, federations of unions have been formed, but in them also shortage of funds has in many cases prevented much work being done. Where central banks are not represented on federations, we consider that they should be given adequate representation on both the general body and the board of management. Some of us desire to go further, and to lay down a

definite percentage of $33\frac{1}{3}$ per cent of the seats on these bodies which should be allotted to banks. Most of us however think it undesirable to do so; so greatly do the circumstances of each district vary in this matter. But we all agree in the opinion that, in deciding what representation should be given on federations to banks, the important duties we propose to entrust to the former bodies should be borne in mind. In the satisfactory discharge of these duties considerable assistance would be derived from individual shareholders of many central banks.

The responsibilities of federations should include the exercise of general supervision over the work of unions and union supervisors, with special attention to the societies of the office-bearers of unions. For these purposes federations should employ an adequate staff working directly under them. All supervisors should be on a district cadre, and their entertainment, transfer, and dismissal should vest in the federations: each union should, however, exercise general control over the work of the supervisor in its area.

We consider that federations and unions should be definitely responsible for co-operative propaganda in the villages: the responsibility for the organization of new societies should also be laid on them.

We also recommend that federations should have more definite responsibility in the co-operative education of non-official workers: we deal with this in a later paragraph.

Supervision fund.—We recommend that—

(1) the supervision fund collected in each district should be centralized for each district area;

(2) the primary societies should pay one-half per cent, and the central bank another one-half per cent, on their lending transactions, and not on interest actually collected. The central bank may make any further contribution for supervision as it may of its own accord decide;

(3) the central bank should collect the contribution of the societies by adding to its rate of interest the one-half per cent, and appropriating the payment made by the societies in the first instance towards the supervision fund. In effect, our proposal amounts to making the supervisory contribution a first charge on the revenues of the societies and the central banks;

(4) the central bank should make over the fund thus collected to the district federation, or, where there is no district federation, to such non-official agency or agencies as the Registrar may prescribe. The district federation or agency to which the fund is entrusted should contribute from it to unions according to their needs and

requirements, provided that each union should receive not less than the amount collected from the societies in its area;

(5) in the case of weaker districts, when the supervision fund collected is not adequate to meet the requirements of supervision in the district, we consider that supervision ought not to be starved, and that Government should make such contribution as is necessary to make up the deficit.

We considered a suggestion for centralized supervision fund for the Presidency collected in all districts, and came to the conclusion that, although it has its advantages, it is impracticable at present. If co-operators realize its advantages, they may work up to that ideal in course of time.

45. *Government staff.*—We consider that the Registrar should hold office for at least five years: frequent changes in that most important post are most undesirable. When a new officer is to be appointed Registrar he should be attached to the department for at least six months before taking charge. Some of us consider that there are advantages in the appointment as Registrar of an Indian gentleman.

We have already detailed the composition of the present staff and sketched the history of its growth. It will be observed that its present composition is the result of the reorganization of 1925, the main features of which were the stoppage of further recruitment of Deputy Collectors from the Revenue Department, the grouping of districts under Deputy Regitrars, and the appointment of officers on a lower scale of pay, Assistant Registrars, for charge of the work in each district. Witnesses have been practically unanimous in condemning these changes, and our own examination of the actual working of the department in districts leads us to the same conclusion. Assistant Registrars have tended to become only heads of an auditing staff, and are so overwhelmed with routine work that they have lost effective touch with the primary societies in their districts, while the Deputy Registrars, in charge of too large an area for one man to administer properly, are also overburdened with work, and are quite unable to give, as they are expected, the individual attention and advice which is necessary to keep the credit movement on sound lines and to develop non-credit activities. We consider that the old arrangement of having in each district, as district officer, a man of the standing of Deputy Registrar should be reverted to. There should be one such officer for each district except the Nilgiris and Madras. We recommend the abolition of the post of Assistant Registrars, and the appointment in each district of an officer, preferably of the same status, as a personal assistant to the Deputy Registrar, to be in charge, under the general supervision of the

Deputy Registrar, of all routine work and particularly of audit. The Deputy Registrars of Coimbatore and Chingleput should each have a second personal assistant for charge of the Nilgiris and Madras, the jurisdiction of the Madras personal assistant being not necessarily confined to Madras City, which is at present hardly a whole-time charge.

We are not impressed with the personnel of the present Assistant Registrars; we consider that very few of them are fit for promotion as Deputy Registrars. We therefore recommend that, while ample opportunity should be given for a flow of promotion of good men from the lower ranks of the department, freedom to indent upon the Revenue, Agricultural, or any other department, for suitable men, whether as Deputy Registrars or as personal assistants, should be given, and also that the Registrar should be free to make appointments by direct recruitment when any specially suitable men are available, the age-limit being relaxed where necessary. We desire to emphasize the necessity of appointing only efficient men to any posts of whatever grade in the department.

We discuss the requirements for the inspector grade under two heads, audit and administration.

In G.O. No. 1670, Development, dated November 14th 1923, the standard laid down for the audit staff is one audit inspector for every 100 societies. It has been found impossible in practice to work on this standard, and inspectors intended for supervision have been absorbed into audit. In his letter No. 1367-D-27, dated April 2nd 1927, the Registrar proposed a scale of one inspector for 60 societies. We consider that this is the minimum for present requirements, and that, as societies increase in number, provision for increased staff on this scale should be made automatically.

As the inspectoral staff has not been increased to keep pace with the increase in primary societies, the Registrar has now no regular administrative staff for credit work, and all duties other than audit have to be carried out by the already overburdened audit staff. We consider that there should be in each district a definite and separate administrative staff, which should on no account be allowed to be absorbed, as in the past, in functions of audit. It should consist of experienced men. It will be concerned with liquidation, enquiries under sections 35 and 36 of the Act, and generally with such other duties as the Registrar may entrust to it. Liquidation has been much neglected in the past, and there are heavy arrears to be worked off without further delay. We consider that there should be in each district one inspector for this special work alone. For the other duties we recommend a scale of two inspectors per district as the minimum. We recommend therefore altogether three inspectors for duties other than audit and non-credit per district.

This standard has indeed already been accepted by Government in G.O. Mis. No. 1917, dated November 18th 1927. We consider that there will be ample employment for these men until the federations and unions have attained a proper degree of efficiency. Till then their duties will be to stimulate unions to greater activity, to visit the worst societies and try to improve them, to collect overdues when required to do so, and to conduct enquiries under sections 35 and 36 of the Act. As we have already shown, very many primary societies require immediate attention. Each administrative inspector will have in his charge approximately half a district, containing on an average seven unions and 250 societies.

At present the Registrar has no reserve of inspectors from which to fill vacancies arising through men going on leave or for training. We consider that it is essential to constitute a reserve if our proposals for staff are to be effective. We propose a 10 per cent reserve, and calculate that it will amount to approximately 40 men. Particular care should be taken that these men are kept strictly as a leave and training reserve. The Registrar should have full power to post them where he thinks necessary.

We make separate proposals for staff for Madras City, where the conditions are peculiar. There are 142 societies in the city, of which 74 are societies for depressed and labouring classes which require intensive supervision. Of the remainder, 41 societies are covered by audit schemes which employ four auditors. We consider that the 74 depressed class societies require three administrative inspectors, but we think that they and the 27 societies not included in audit unions could be audited by one inspector. We therefore recommend four inspectors for Madras City. The present sanctioned staff is only three.

We are not satisfied with the stamp of men at present employed as supervisors by unions. We consider that model by-law No. 18 for unions should be revised so as to prescribe, as a necessary qualification, that the candidate shall have passed an examination recognized for the purpose by the Registrar. We consider that there should be a flow of promotion for exceptional men from the supervisor grade to the inspector grade in the department, appointments being made by the Registrar. This proposal should induce a better type of men than at present to enter the supervisor's ranks ; it would secure better prospects for good men, and would be an incentive to good work.

We are impressed by the great amount of work involved in the preparation of the large number of returns prescribed by the Local Government and the Registrar for purposes of the Administration Report. We think that there is scope for a considerable reduction

in their number and complexity. We also consider that ordinary office work could be much reduced and simplified. We suggest that a competent officer with the requisite experience should be placed on special duty for four months to investigate these returns and make proposals. He should investigate the possibility of further powers being delegated by the Registrar to the Deputy Registrars, and by the latter to their personal assistants. He should also report as to the adequacy or otherwise of the office staff at present employed. The Deputy Registrar and his personal assistant in each district should have a combined office.

Peons.—The Registrar desires to give one peon to every inspector. Some of us consider that, if funds permit, the proposal is good, and would save considerable waste of the inspector's time that is at present occupied in collecting the office bearers and members of societies which it is desired to audit.

46. *Audit and audit unions.—Primary societies of unlimited liability.*—The Act lays down that audit "shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society." These functions are therefore primarily the duty of the auditor, and the staff provided must be sufficient to carry them out. It appears that any further duties that are laid on the audit staff are optional and must be contingent on the staff available.

We found that in practice the statutory duties above referred to have not been carried out in full, as the staff has been employed on details not strictly covered by statutory audit. Most of the questions in the audit report more properly pertain to supervision, and there seem to be no questions the answers to which require a full valuation of assets and liabilities and an examination of overdue debts.

We consider that the statutory audit requires that the auditor should—

(1) verify the cash balance. If it is not immediately forthcoming, he should make a note to this effect, and record any reasons given for the delay. He should also state where and how it is kept;

(2) verify the genuineness and regularity of all personal security and mortgage bonds, and see they are not time-barred. Any defects must be detailed;

(3) verify the property statement in a general body meeting, and also by independent enquiry from persons unconnected with the society. He should state in detail the steps he has taken and the result of his enquiries;

(4) ascertain from the property statement, and otherwise if necessary, whether the personal sureties are good for their undertakings, and whether the mortgage securities are sufficient : any defects should be pointed out and commented on ;

(5) submit a detailed report on all overdue debts, and state definitely whether he considers they are good or not : he should also state the steps that are being taken to recover them ;

(6) verify the liabilities against the central bank's statements and fixed deposit receipts in the hands of depositors, etc. (whenever possible), and note any differences with his explanations ;

(7) state whether the by-laws, Registrar's orders etc. are being properly observed ;

(8) state whether all the irregularities brought to light in previous audit reports have been rectified ;

(9) prepare a balance sheet and profit and loss statement ;

(10) test certain of the supervisor's answers in the supervision report (which will be somewhat on the lines of the present audit report), note the result, and state if the supervision appears efficient or, if not, its defects.

We emphasize the importance of the verification of the cash balance. This should be the auditor's first duty on arrival at a society. The audit report should provide for clear and definite statements to the effect that the auditor has verified the assets and liabilities, and for full and detailed reports of any irregularities.

The above scheme may involve an increase of work, in that a much more detailed examination of the assets and liabilities will be necessary than at present, but we consider it necessary that the statutory audit should be efficiently done, and an increase in staff provided for it if necessary. Some work will however be saved if the optional duties more properly pertaining to supervision, which have been omitted from the duties detailed above, are excluded or lessened. We also think that the present audit staff is not in general competent : better trained men would certainly do the work more quickly. We return to this point later in our proposals for the training of staff.

Many complaints were made to us by the representatives of central banks regarding delay in the receipt of audit reports. An increase in staff for this end alone would probably result in many auditors being without work between audits. As an alternative we

suggest: (1) that the societies in each district be divided into two groups—one to be audited for the year ending June 30th and the other for the year ending December 31st. This will necessitate unaudited statistics of the second group being included in the annual report, but we do not regard this point of importance, as in practice many of the present statistics are unaudited: (2) that audit be also divided into two parts, preliminary and final. Preliminary audit may include all the duties of the auditor, except the preparation of the balance sheet and the profit and loss statement. In his certificates the auditor may state that he has verified the different items *during* the year: this would obviate his doing so as at June 30th. At the final audit there should be little left to do except verification of the balance sheet and profit and loss account. But the cash balance is so important that it should be verified at both audits.

Audit operations should, as far as possible, be so conducted that societies are visited for preliminary and final audit at intervals of about six months. We deprecate however the fixing of too definite a time-table, as we think that difficulties arise in practice which must result either in such time-table being departed from, or in the audit work being unduly hurried. We think the present practice requires modification in this respect.

The Act lays on the Registrar the responsibility for audit at least once a year. We think an annual audit is very advisable, but, if the staff available does not permit of an efficient audit annually, we feel very strongly that frequency should give place to efficiency.

We hesitate to state definitely the staff necessary for the annual audit we contemplate, but we consider as we have already said that one auditor cannot deal satisfactorily with more than sixty societies each year. We think that about 5 per cent of societies should be super-audited by the Deputy Registrar or his personal assistant, to keep them in touch with societies and to check the work of inspectors.

We do not think that the time has yet arrived when primary societies in this Presidency should pay for any portion of the statutory audit. As long as there is any question of the adequacy of the funds available for supervision, this matter should not be taken up, but, in view of the fact that such payment is made in certain other provinces, it may be reconsidered after a suitable interval.

We think that audit reports of primary societies should in all cases be supplied to central banks as well as to supervising unions free of cost. Extra carbon copies may be made for this purpose.

Any other organization or individual should be entitled to make copies, or to obtain them on payment of the cost of preparation.

We consider that for some time to come the audit of primary societies of unlimited liability must be done by the Registrar's staff, and that the formation of audit unions for this purpose will not be practicable.

Limited liability societies.—The audit of limited liability societies presents different features from that of societies with unlimited liability. Central and urban banks are much the most important in this class. At present the audit of these banks is divided into concurrent and final audit. The former includes the checking of each day's transactions, of interest calculations, etc ; in a joint stock institution this work is done by a superior staff employed by the institution itself, and many central banks and some urban banks have adopted this method and employ their own concurrent auditors. The process involves considerable labour, especially in the case of large urban banks with numerous loans : in the case of one urban bank we found that it would take one man eight months to complete. As stated in our paragraph on urban banks, the adoption of more up-to date methods of book-keeping will effect a considerable saving of time in the concurrent audit, but in any case we consider that such audit forms no part of the statutory duty of Government, and should not be a burden on the tax-payer. Central and urban banks should therefore, we think, pay for their concurrent audit. We consider also that these banks should pay for their final audit, with the exception of urban banks with a working capital of under Rs. 50,000, which may not be in a position to do so.

The audit of central and urban banks differs materially from that of agricultural societies with unlimited liability. It is less personal and more technical. We are therefore of opinion that a different training is needed for the auditors. We propose that a central audit organization be formed to which central and urban banks may affiliate themselves. The auditors employed by this organization should hold certificates from the local Government, and be approved by the Registrar. The Presidency should be divided into suitable sections with an auditor in charge of each, any reserve men being posted to assist in the heavier districts or placed on work in headquarters. The cost should be allocated to the affiliated banks in proportion to their transactions. The Registrar should at his discretion from time to time also entrust the organization with the final audit. He should take appropriate steps to satisfy himself that this organization discharges its duties efficiently. We anticipate that this organization will at its inception embrace central banks and the larger urban banks, but we think that all urban banks should be encouraged to join it as soon as

possible, and that the department should make grants to the audit organization in respect of any final audits undertaken by it, if such audits would otherwise be done free of cost by the department.

We do not think that small local audit unions can usually attract suitable men for the work.

The form of final (statutory) audit report will of course in all cases be subject to the approval of the Registrar, and should include all the points (with the necessary modifications), mentioned in the paragraph dealing with the audit of unlimited liability societies which are applicable. Particular attention must be paid to the valuation of assets and liabilities and the examination of overdue debts in societies of limited liability.

At present the audit of urban banks is left until that of the unlimited liability societies, which are smaller, is completed. We think that a prompt audit of limited liability societies is the more important, as defects may have more serious results, and delay in payment of dividends is often misunderstood.

The audit of loan and sale and other limited liability societies we propose to leave with the department. Each class of society presents special features, but we do not think any of them are of sufficient importance to deal with here.

47. *Reserve funds.*—Section 33 of the Act deals with reserve fund, and, under section 43 of the Act, the Government may make rules providing for the formation and maintenance of reserve funds and the investment of such funds. The provisions of section 33 and of the rules issued under section 43 have resulted in the following practice being observed :—

(i) no unlimited liability society may make a division of profits without carrying at least one-half of its net profits, and no limited liability society without carrying at least one-fourth of its net profits, to reserve fund.

(ii) reserve funds of primary societies are invested in central banks : reserve funds of central banks are generally invested in the M.C.U.B., and, to a smaller extent, in Government Paper : the reserve fund of the M.C.U.B. is entirely in Government Paper.

The evidence we received is strongly in favour of continuing the practice of investing the reserve funds of primary societies in central banks. Some witnesses however desire that central banks should allow interest on the reserve fund deposits at the same rate they charge on the loans to primary societies. We think this is going too far, but a majority of us is in favour of limiting the rate on loans to societies, of amounts equivalent to their reserve fund deposits, to 1 per cent more than the rate allowed on those

deposits. The minority however considers that, with the growing reserve funds of societies, central banks may not in the future be able to afford a reduction in the margin between the borrowing and the lending rates on what may prove to be a large portion of their funds, especially in view of the increasing supervision and audit burden which it visualizes. The minority also considers that a large portion of the reserve funds of societies should be held by the central banks in a readily realizable form, and can therefore only bear a low rate of interest. We are all agreed however that central banks and primary societies should be encouraged to invest their reserve funds in redeemable Government securities. But in the case of primary societies whose reserve funds are relatively large, and whose deposits are small and largely based on local influences, sudden emergencies of an extreme nature seem improbable, and we think that 20 per cent of their working capital in a readily realizable form should ordinarily be sufficient, and that, when their reserve funds exceed this proportion, any excess may be used by the societies in their own business. This would give them a tangible object in building up their reserve funds, and we consider that these funds serve a very useful purpose in both encouraging thrift, and in providing a fund for unforeseen losses and a security for borrowings. It may also ultimately permit of a reduction in the rate of interest to members. We should prefer that this 20 per cent should be invested outside the movement, but, as the interest on such investments would be substantially less than the interest societies are now receiving, we do not feel justified in recommending that such investments should be compulsory. We think that every effort should be made to build up these funds, and we make recommendations in the paragraphs on primary societies and central banks which will assist in doing so.

We are of opinion that consumers' and producers' societies, which do not accept deposits or grant loans, may invest their whole reserve funds in their own business. In the paragraph on urban credit societies we suggest that purely thrift societies be exempted from the compulsory maintenance of reserve funds.

When reserve funds are in the form of Government securities, care should be taken that the securities are not used as cover for borrowings.

48. *Fluid resource.*—In dealing with this important subject, we consider it desirable to deal separately (1) with the standards of fluid resources to be maintained and (2) the forms in which they are to be maintained. With regard to the standards, our recommendations are unanimous. But with regard to the form, four of us are of one opinion, with which the other three find themselves unable

to concur. The recommendations relating to the latter are therefore of a majority.

Standards.—The Co-operative Societies Act makes no reference to the maintenance of fluid resources, that is, to the necessity of societies holding a certain proportion of their assets in a liquid form to meet the claims made from time to time by depositors. Rule VIII-C made under the Act however makes the following provision :—

"All societies with limited liability which accept deposits and loans shall provide for fluid resource in respect of deposits and loans received from individuals and institutions other than co-operative societies in such manner and according to such standards as may from time to time be prescribed by the Government. Where however one co-operative society gives a cash credit to another co-operative society to serve as a cover for deposits in the latter society, the former society shall provide for fluid resource in such manner and according to such standards as may, from time to time, be prescribed by the Government The Government may however empower the Registrar by general or special order to relax the standard prescribed for a particular society or for a particular class of societies for a specified period."

No provision appears to be made for unlimited liability societies, and the Government orders issued deal only with limited liability societies with deposits of over 20,000 rupees. We think that the standard of fluid resource to be maintained by limited liability societies with deposits under Rs. 20,000 and by unlimited liability societies as a whole, may, for the present, be left to the discretion of the Registrar. The question of the necessity of a society holding fluid resources in respect of cash credits granted to other co-operative institutions, the undrawn portion of which is treated as fluid resource by the latter, has been raised. The present rule is that not less than 50 per cent of the cash credits sanctioned should be held (vide G.O. No. 985, dated July 2nd 1927).

The fluid resources are now maintained according to the standards laid down in G.O. No. 1127, dated August 3rd 1920, and modified by later Government Orders, on the following scale by the central banks :—

(i) Fifty per cent of fixed deposits falling due in the next 30 days :

(ii) Fifty per cent of current deposits :

(iii) Twenty-five per cent of savings deposits.

It further lays down that a minimum notice of one month should be required for withdrawal of savings deposits. G.O. No. 200 of February 2nd 1924 and G.O. No. 1203 of July 2nd 1924 however

permit withdrawals up to Rs. 200 a week. By G.O. No. 623 of April 15th 1922, the M.C.U.B. was permitted to maintain 40 per cent only in the case of current accounts. The other proportions were unchanged.

With regard to urban banks, the standard of fluid resources was fixed in G.O. No. 501, dated April 10th 1923 at :

(1) twenty-five per cent of fixed deposits falling due in the next 30 days ;
(2) twenty-five per cent of current deposits ;
(3) twenty-five per cent of savings deposits ;

and the Registrar is given power to relax the standard.

In connection with the modification of the scales of fluid resources in general Government placed on record that the Registrar and his subordinates must realize the responsibility for more frequent scrutiny of the banks' operations.

We observe that the fixing of fluid resource on the basis of fixed deposits falling due in the next 30 days produces very violent fluctuations in the amount required : nor does the practice appear to have been adopted elsewhere. Further, we note the amount to be maintained is lower than that in Bengal, Bombay, or the Punjab : these are the only provinces for which we have figures. We recommend that in future the proportions fixed should be 30 per cent of fixed deposits falling due in the next six months or 50 per cent of those falling due in the next 30 days, whichever is from time to time the higher; this will prevent the present violent fluctuations. The deposits of public bodies etc., however, form a special problem with which we deal in a separate paragraph. We also recommend that the due dates of large deposits should as far as possible synchronise with the periods when repayments from the sale of harvests may be expected, and that large deposits should, wherever possible, be split into smaller sums, the due dates of which should be spread over a suitable number of months or years. An offer of different rates of interest will facilitate this object.

With regard to current accounts, we think that central banks should exercise more care than they do at present. We deal with this in the paragraph relating to central banks. Provided the precautions recommended are taken, we think the proportion of fluid resource may remain at 50 per cent.

We recommend no change in the case of savings bank accounts, but we emphasise the fact that such accounts must be confined to savings and not utilized as current accounts.

The problem of urban banks needs special consideration. On principle we find it difficult to appreciate the reasons for the adoption of a lower scale of fluid resource in their case than in others.

The fact that urban banks are unable to obtain cash credits from central banks to meet emergencies, and are prohibited from resorting to other banks for accommodation, seems to us to provide an argument for the necessity for at least an equal, if not a higher, standard. We gather from the administration reports of the department that its policy is to discourage the tendency of limited liability credit societies to rely upon central banks for financial accommodation, and to insist on these societies looking to local sources for the bulk of the money which they require in addition to their owned capital, that is, paid-up share capital and reserve fund. There is force in this view, but, if they are discouraged from borrowing from central banks, the latter can scarcely be expected to oblige them with cash credits.

In dealing with urban banks we have recommended that large fixed deposits should be split into smaller deposits, the maturity of which should synchronise as far as possible with the due dates of loans. The instalments of loans are often due monthly, and in many instances it is probable that the rotation of loans is quicker than is the case with central banks: in several cases however there is a very large proportion of overdues. We have no alternative but to recommend that every effort should be made to work up to a standard of fluid resource on the same scale as that we have recommended for central banks, although we realize the difficulties in doing so. We also think that the Registrar should endeavour to help urban banks by obtaining cash credit facilities for them on the collateral security of their members' promissory notes. In the paragraph on those banks we refer to the unbusinesslike manner in which the many urban banks conduct their current account business, and recommend that current accounts be only opened for members. Nevertheless, we consider that the same fluid resource as in the case of central banks should be maintained in respect of these operations to ensure the safety of depositors' claims; the relation of members to an urban bank is of quite a different nature to that of members to an unlimited liability society.

Form of fluid resource.—G.O. No. 1427, dated August 3rd 1920, already referred to, laid down that fluid resource should denote the cash balance on hand with the bank plus undrawn cash credit with the Bank of Madras plus 80 per cent of the market value (as noted in the daily papers) of Government promissory notes. The Maclagan Committee accepted as fluid resource the undrawn portion of a reserve cash credit with the Provincial Co-operative Bank or the Presidency Bank, provided that there existed a moral certainty that such bank will not withdraw the accommodation without adequate notice. Mr. Hemingway recommended to the Government the inclusion of undrawn portion of cash credit as part of fluid resource

in his letter No. Gl. 3331, dated July 13th 1919. He based his recommendation on statements made by Sir Bernard Hunter that he considered the position of co-operative banks to be analagous to that of his own branches, and that implicit confidence might be placed in the Bank of Madras not to withdraw cash credit in such a way as to endanger the co-operative banks. Sir Bernard Hunter's letter may not be so free from reservations as to justify unlimited reliance on the then Madras Bank not to withdraw the amount in a crisis, but Sir Norman Murray's recommendations strengthened Sir Bernard's proposals, and led to the definite inclusion of the Imperial Bank's overdraft as part of the fluid resource: in fact the fluid resource was defined in consultation with him. These details are obtained from G.O. No. 1427, Revenue (Special), dated August 3rd 1920, in which the correspondence with the Imperial Bank is printed. The reasons that led the Maclagan Committee to recognize undrawn cash credits with the Provincial and Presidency Banks as parts of fluid resource were mainly two-fold. *Firstly*, that the margins available for income are too low to permit large portions of the capital of co-operative banks being invested on unremunerative terms, and that, instead of these margins expanding, there would be a tendency for them to contract with the development of the movement. *Secondly*, that the rigidity of the co-operative finance arising from the nature of the securities on which advances were made by the co-operative banks is such as not to permit of those securities being readily accepted and easily converted into cash in the commercial banking world. If undrawn cash credit with the Imperial Bank is excluded from fluid resource, and central banks are compelled to maintain fluid resources only in cash and redeemable Government securities, it will appreciably diminish the profits of the central banks. The cost of maintaining fluid resource only in cash and Government securities will have to be ultimately borne by the primary credit societies, who form the bulk of shareholders in the central banks. This burden will fall on them, either in the shape of diminution of the dividends which they now derive, or by way of loading the rate of interest at which they now borrow from the central banks. In either case, the available profits of primary societies, which are the lowest as compared with those in other provinces of India, will be still further reduced. This will be a serious menace to the movement. The establishment of the Reserve Bank, in the scheme of which there is a definite provision for giving rediscounting facilities to agricultural paper countersigned by co-operative banks, will tend to remove some of the present inelasticity of co-operative finance, and the demand promissory notes of societies and central banks would become more acceptable as cover for financial accommodation from the commercial banks.

The Maclagan Committee recommended that the undrawn cash credit with the Provincial Co-operative Bank may be included as a part of the fluid resource. The central banks, which really own the provincial bank, have more than a moral claim to the enjoyment of facilities for cash credit for the purpose from that bank. In spite of this fact it is curious to note that the cash credits which are now allowed by the M.C.U.B. to the central banks (amounting to 7 lakhs) are not counted as fluid resource under the Government orders and departmental circulars. If the central banks agree among themselves, we consider it safe to concentrate the cash credits which serve as fluid resources of central banks in the M.C.U.B., which in its turn secures similar facilities from the Imperial Bank. We understand that this arrangement will not give rise to any difficulty in practice in the matter of central banks operating on the cash credits towards their fluid resource requirements, as the Imperial Bank, we are told, has no objection to permitting the central banks to draw on their own cheques by previous suitable arrangement. With reference to urban banks, the Registrar points out in the note circulated by him to the Committee, and already referred to, that their fluid resources definitely include the overdraft allowed by a central bank, and proceeds to say that "It is only reasonable now that a central bank must reserve cover for those overdrafts to the extent of 50 per cent in so far as the latter are intended to cover deposits, that the central banks should include a cash credit from the M.C.U.B. in their fluid resource. This was recommended to the Government, but the point was omitted in the Government Order issued and the matter will be taken up again." The undrawn cash credit of central banks with the M.C.U.B. should therefore, we recommend, be included in their fluid resources.

But, whether the central banks enjoy the cash credit individually in the Imperial Bank or whether they concentrate it in the M.C.U.B., the success of the scheme will ultimately depend upon the continuance of the facility to the movement as a whole by the Imperial Bank of the grant of cash credit against the demand promissory notes of societies and central banks, and the freedom to utilize a portion of such cash credit for fluid resource.

The Imperial Bank rendered valuable services in the past to the co-operative movement, and we understand that it is willing, not only to continue the facilities which it now gives to the co-operative banks, but even to afford additional facilities if necessity arises. The Imperial Bank at present allows cash credit to the co-operative banks in this province for two purposes: (1) for fluid resources to cover deposits by individuals and institutions other than co-operative societies, and (2) for utilization for short term loans. Central

banks have been asked to divide the cash credit allowed to them by the Imperial Bank into two parts, setting aside a definite amount for fluid resource. . The Registrar in a note circulated by him to the Committee points out that several of the central banks have done so, but in their quarterly statements they take credit for this total undrawn cash credit. He further states " It is not unreasonable, because in point of fact and so far as the Imperial Bank is concerned the whole undrawn overdraft is actually available for the purpose and this ear-marking of a part of the overdraft only amounts to a provision that not more than a certain part will be used for short-term loans."

The position of the fluid resources in the 30 district central banks and the Christian Central Bank, as on September 30th 1927 is shown in the following statement :—

	Amount of fluid resource which the 30 district central banks were requested to maintain.	Actual fluid resource maintained.			
		Undrawn Imperial Bank overdraft.	Government securities.	Cash.	Total.
	RS.	RS.	RS.	RS.	RS.
30 central banks	23,93,930	29,97,734	5,67,500	13,50,588	49,15,822
C.C.C.B.	1,13,321	1,73,031	81,805	84,713	3,39,549

This statement shows that in actual practice the central banks rely, not only on the undrawn cash credit, but also to some extent on the cash with them, and to a small extent on Government securities also. The conditions on which the Imperial Bank allows cash credit to the central banks in this province are as follows :—

(i) interest is payable quarterly at a flat rate of 6½ per cent per annum, calculated on daily debtor balances ;

(ii) the cash credit should be utilized only as fluid resource to cover deposits, or as short-term loans repayable within a year ;

(iii) as a general rule, the cash credit will not be allowed to an amount exceeding the owned capital of the central bank concerned ;

(iv) the central bank concerned should, in addition to the promissory note executed by it, furnish collateral securities in the shape of promissory notes of unlimited liability credit societies in the case of district central banks, and promissory notes of district central banks in the case of the M.C.U.B. ;

(v) the actual value of the collateral securities furnished should be in excess of the cash credit sanctioned by at least $33\frac{1}{3}$ per cent;

(vi) each central bank should forward to the Imperial Bank every quarter a list of promissory notes lodged as collateral securities, showing the amount outstanding on each promissory note together with a certificate to the effect that the promissory notes lodged as collateral securities are in order. The list and the certificate are verified every half-year by the Deputy Registrar concerned, and the certificate of each verification is forwarded to the Imperial Bank through the Registrar;

(vii) such of the promissory notes lodged as collateral securities as have become three years old, or are discharged, should be substituted by fresh promissory notes.

These conditions are sufficient guarantee against ordinary risks. The central banks fully realize that the continuance of the facilities of cash credit depends on their pursuing sound business principles. The argument that in times of financial stringency the facilities may be withdrawn by the Imperial Bank may be easily over-emphasized. It is to enable the co-operative financial organizations to weather possible financial storms that the co-operative central and provincial banks are sought to be linked up for financial accommodation with the Imperial Bank with its enormous resources and Government backing. To urge the very contingency of financial stringency, which is thus sought to be provided against, as an argument against the continuance of the provision is to destroy the very foundation of the wise and practical solution out of the difficulty found by the Maclagan Committee in 1915, and by Government in 1920 with the concurrence of the Imperial Bank. Co-operative banks, it was recognized, could not be expected to be self-contained and self-supporting in the matter of providing fluid resource to the extent necessary for safety and stability without the help of the Imperial Bank and the Provincial Bank. The Maclagan Committee's caution that too much reliance should not be placed in this matter on the help of commercial banks is, in our opinion, not to be applied to the Imperial Bank. The Imperial Bank should be considered for this purpose, not merely as a commercial bank, but as the financial agent to the Government in regard to the co-operative movement in this country. It has undoubtedly acted in that spirit in the past, and we see no reason why it should not do so in the future, even in its capacity as the agent of the Reserve Bank.

The facility of cash credit is not confined to this province alone. It is enjoyed by the co-operative banks in almost all the provinces

in varying degrees. The following table will show the facilities enjoyed by the co-operative banks in the several provinces:—

Provinces.	Limit of credit of co-operative bodies		
	Against Government and other authorized securities, etc.	Against the borrowers demand promissory notes and promissory notes of rural credit societies.	Total.
	RS.	RS.	RS
Bengal	37,73,900	6,06,000	43,79,900
Bombay	83,000	8,00,000	8,83,000
Bihar and Orissa	..	8,00,000	8,00,000
Burma	34,20,500	1,00,000	35,20,500
Central Provinces	9,05,800	4,00,000	13,05,800
Delhi	2,07,000	..	2,07,000
Madras	21,50,000 *	54,31,000	75,81,000
Punjab	38,96,000	21,15,000	60,11,000
Total ..	1,44,36,200	1,02,52,000	2,46,88,200

* *N.B.*—This figure was Rs. 11,50,000 till December 1927, when the M.C.U.B. obtained an increase in its limit of credit against Government securities from 10 lakhs to 20 lakhs.

We presume that in almost all the provinces portions of the cash credits shown above are being used as part of fluid resource, and the balance for short-term finance.

The conclusion therefore at which we have arrived by a majority is that the existing arrangements with regard to fluid resources are sound, and that a change in them is not called for. We however recommend that, in order to make the existing arrangements absolutely safe, steps be taken to ensure that the continuance of these facilities is made obligatory on the Imperial Bank by some statutory provision, contractual guarantee, or other suitable method.

49. *Deposits by local bodies, etc.*—Government have permitted local bodies, etc., to deposit their funds in central banks approved by the Registrar. These funds are in essence trust funds, and, in permitting their deposit in banks for which it holds statutory responsibility for audit, it may be argued that Government accept responsibility for their safety. A great responsibility therefore appears to rest on the Registrar. It has to be recognized that, once he has allowed a bank to accept these funds, the removal of such permission would in all probability result in a withdrawal of other deposits also, and thus cause the financial ruin of the institution: his responsibility is however such that it is his duty to act, if for any reason whatever he thinks it advisable.

In practice all central banks have been admitted to the approved list. In some banks the total of such deposits exceeds those from other sources. In many cases the banks have been unable to utilize them, and have thus become burdened with an interest-bearing surplus: we found at least one instance where a central bank had redeposited a large sum for a fixed period with a commercial bank at an unprofitable rate of interest. In other cases banks have only been able to utilize the money by investing what are essentially short term deposits for long periods.

The nature of these deposits differs. In some cases they will probably not be required for many years and until after due notice: in others large withdrawals may be made at short notice. Special care is necessary in maintaining the requisite fluid resource for the latter: in some cases this care is not being exercised, and we have observed at least two instances of extreme laxity in the matter.

With regard to current accounts, an arrangement might be arrived at whereby notice of large withdrawals is given. Failing this, in view of the fact that in some banks almost all the current account balance is in the form of deposits from local bodies etc., a higher standard of fluid resource is absolutely necessary. Three per cent interest on the daily balances will in such circumstances be too high: in any case interest should be calculated on the minimum monthly balance, as is the case with commercial banks.

With regard to fixed deposits, every effort should be made to arrange that deposits for more than Rs. 10,000 are repayable when repayments are ordinarily expected from societies. A similar practice exists in Germany. A differential rate of interest favouring such deposits will assist in attaining this end.

In at least one instance the by-laws of a central bank provide that such deposits shall be repayable, if desired by the depositors, before the due dates. This is very dangerous and requires amendment. Effect is being given to this by-law: but we can find no record of the Registrar's sanction.

We are of opinion that fixed deposits of Rs. 10,000 and over should be accepted from public bodies only on the condition that six months' notice of withdrawal be given by the depositors. When such notice is received, the bank should immediately advise the Registrar of the fact, and of the steps it is taking to meet the payment. Three months before the due date for payment a second report on the matter should be submitted to the Registrar. At least 66 per cent of the amount required, in addition to the fluid resource required for other deposits, should be available two months before repayment is due, and this fact should be intimated to the Registrar.

The present system, under which the amount of the deposits of public bodies etc., with a bank is based on the loan repayments in the previous year, is unworkable in practice, as a bank cannot reasonably force depositors to receive back a portion of their deposits when loan repayments have fallen. We consider that the basis for the calculation should be the bank's capital and reserve fund, and that such deposits should not exceed four times this amount, with the proviso that this limit may be exceeded in special cases after the Registrar's sanction has been obtained: before giving such sanction the Registrar should take into account the nature of the deposits concerned.

50. *Arbitration, liquidation and execution.*—Complaints were made to us as to delays incurred by arbitrators in making awards. We consider that suitable honorary agency wherever available, particularly in retired Government servants, should be utilized for the purpose. A panel of suitable gentlemen should be maintained by the Deputy Registrar. Honorary arbitrators should be given a small staff for clerical and process work, and travelling allowance for any journeys they make.

We learned during our enquiry that some societies exist in every district whose present condition can only be described as hopeless. Some societies have done no business, either in the way of collecting old or making new loans, for years. Some societies borrowed monies once after registration from the central bank, distributed them as loans to their members, and did nothing else: yet no steps were taken either to revive or liquidate them. But when societies are dormant the more well-to-do members may leave them, either because they can get no loans from them, or because they wish to escape the unlimited liability attaching to membership. The security of the central banks which lent money to these societies on the basis of the property statement submitted to them at the time the loan was granted is thus reduced, and it is possible that the banks may even lose money eventually in such cases. When societies do not collect their dues in time debtors may alienate their property, and thus become unable to repay their debts: in any case such alienations reduce the security of central banks. Further, when societies have not been working for some time, there is risk of the debts due to them becoming time-barred. We therefore consider it necessary to emphasize the importance and urgency of paying immediate attention to dormant societies, and either reviving or liquidating them without delay.

Liquidation is now left to Assistant Registrars, who have ample work otherwise and who are not specially qualified for this work. We consider that the Registrar should have power to entrust the work of liquidation to non-official gentlemen chosen

from among the directors of central banks, from among the members of the bar practising near the village where liquidation has to be undertaken, or from retired officials: always on the assumption that competent men are available. The commission of about 5 per cent on amounts realized, which is admissable under the rules, would be sufficient remuneration. When legal difficulties arise the Government Pleader should be consulted. But we consider that the Deputy Registrar (under our proposals) should still have the responsibility for keeping a watch over the state of liquidation work in his jurisdiction, and see that it is not allowed to fall into arrears.

We draw attention to the fact that, though the by-laws of societies contain restrictions against withdrawal of members, these remain a dead letter, as the share capital of members is often adjusted towards their overdues, and when this has been done membership ceases.

There are defects in the law and rules relating to liquidation. We draw special attention to the following, in order that they may be rectified by suitable legislation or rules :

(*a*) as the law stands at present, the Registrar has no power to give directions to the liquidator after his appointment. The Registrar should be enabled to give him directions from time to time ;

(*b*) in section 42 (2) (*b*) of the Act, the liquidator has power to determine the contribution to be made by members and past members. This means that he has to decide once for all the contributions to be made by all the members. To enable him to enforce contribution equitably from all the members, he should be enabled to determine from time to time the contributions to be made, so that he may work out an equitable contributory arrangement by different stages:

(*c*) in section 42 (2) (*b*) the estate of a deceased member is not specifically mentioned as a contributory. It should be included. The heirs and legal representatives, including executors and administrators, should bear the liability :

(*d*) in section 24 the estate of a deceased member is declared to be liable for the liabilities of the society for a period of one year. We consider the period too short. It should be extended to at least two years, as in the case of past members, the necessary legislation being undertaken for the purpose :

(*e*) the liquidator has at present no power to refer any matters in dispute to arbitration. He should be given that power, subject to the Registrar's sanction in each case :

(*f*) there is no provision for the disposal of books after liquidation. Provision for this should be made :

(*g*) no ledger is kept in the Assistant Registrar's office, and there is consequently no easy method of discovering what action has been taken in respect of each member of a society under liquidation. To ascertain this, the whole file, often very voluminous, has to be gone through. There should we consider be a ledger showing the demand against each member and the collections made from time to time :

(*h*) the necessity for passing both a preliminary and a final decree in the case of decrees on mortgage loans should be done away with, and the decree given in the first instance should be treated as the final "executable" decree :

(*i*) sections 50 and 51 of the Bombay Act, and the Burma Co-operative Act VI of 1927, deal with liquidation. When a separate Co-operative Act for Madras is passed, the opportunity should be taken to incorporate similar provisions in it.

We received many complaints as to delays in execution. We recommend that the present limit of forty cases per taluk per year which may be sent for execution to the Revenue Department be removed, and that tahsildars may be allowed to employ subordinates, such as revenue inspectors, on the work. If this be not possible, we recommend that the honorary arbitrators, already mentioned, be allowed to execute their own decrees. Village panchayat courts should also be given power to execute decrees for sums of Rs. 50 and under. Under Act I of 1889 these courts are only permitted to execute decrees which they themselves have passed ; the necessary amendment should be made in that Act.

A special staff should be entertained for execution, to work either under the agencies mentioned above or under the Registrar. Its cost should be recovered from the defaulters, the Act being, if necessary, amended to enable this to be done : for this purpose a scale of execution fees should be drawn up.

It should be remembered that the production of encumbrance certificates should be enforced only when immovable properties are to be brought to sale, and not in earlier stages of execution proceedings.

Officers not below the rank of inspector specially authorized by the Registrar in this behalf may, on the application of the society concerned, be empowered to recover overdue instalments of loans by the distraint and sale of the defaulter's movable property, as if they were arrears of land revenue. The power should not be extended to the arrest of the defaulter nor to the sale of his immovable property. The existence of this power will itself stimulate prompt repayment.

51. *Education and training.*—We have been very much impressed by the lack of knowledge of even the commonplaces of co-operation shown, not only by the members of primary societies, but also by office-bearers, and even by the staff employed by the various non-official agencies. We believe that many of the unsatisfactory features in the present condition of the movement are directly attributable to this ignorance. Even the official staff is, we consider, in many respects insufficiently trained for the proper discharge of its duties. Too much importance cannot be attached to the necessity for adequate education in co-operative principles of all concerned in the movement.

Dealing first with the education of non-officials in co-operative principles, we consider that this should be the duty of a central non-official body working through the federations and co-ordinating their activities. We consider that the P.C.U., if reorganized (as we understand is proposed) on a larger basis, so as to represent federations and central banks, would be a suitable body to undertake this work. Government should give it a grant-in-aid in the proportion of Rs. 3 to every Re. 1 raised by the P.C.U. by subscriptions and contributions, until the grant made by Government reaches Rs. 20,000, when the position should be reconsidered. The present income of the P.C.U. from contributions is Rs. 4,600. We recommend in addition that Government should give a grant of Rs. 1,000 per annum to each federation affiliated to the P.C.U., to be spent on education and training. The grant to the P.C.U. should be conditional on its giving representation on its governing body to each federation. Each course of instruction, whether arranged for by the P.C.U. or federations, and the list of instructors, should be determined in consultation with the Registrar.

The function of the P.C.U. would be the organization of classes both in Madras and in the districts, through the federations, for the training of supervisors and of private individuals, in the latter case at their own cost. There should be an examination at the end of the course, and in the appointment of supervisors preference should be given to men who have passed the examination. The course of training should be approved by the Registrar. Other functions of the P.C.U. will be to publish, as at present, a monthly co-operative magazine, to organize periodical conferences, and to arrange for adequate propaganda by means of lectures and classes, aided possibly by the magic lantern and the cinematograph, working whenever possible through the federations.

The function of federations in respect of education would be to hold classes at convenient centres to give a simple course of training for office-bearers, panchayatdars, and members of primary societies.

There is already a demand for separate organizations for separate language areas. One already exists in an undeveloped form in the Andhra Sahakara Sammelanam in the Telugu country. We think that such bodies should, at any rate for the present, be co-ordinated to the P.C.U., in order to secure uniformity, and to avoid overlapping: their most useful function would be the publication of magazines, pamphlets and other literature, and education and propaganda generally in the language of the areas. The eventual ideal to be aimed at in this connexion is the establishment of separate linguistic unions for each well-marked language area: but this ideal will not be attained at once.

We suggest that, if funds permit, a small fleet of demonstration motor vans should be organized, which should tour the Presidency in charge of an officer with special propagandist abilities, and give ocular demonstration to the ryots of the practical value of co-operation. In certain other provinces a demonstration train is being used for the purpose. But we consider motor vans would be more useful in this Presidency. We understand that the Agricultural Department has a similar project under consideration, and we recommend collaboration with that department in the matter.

We now deal with the official staff. We consider that the present courses as laid down for the training of superior officers are adequate, but we are under the impression that full effect is not given to them in practice. We desire to emphasize the necessity for the training courses as laid down being carefully followed, particular attention being paid to the provisions for practical instruction. In addition, suitable men should be given facilities for proceeding on study leave to other provinces, and. even, in very exceptional cases, to Europe.

We consider that the present courses as laid down for the training of auditors and inspectors are adequate, but we desire to emphasize here also the necessity for adhering carefully to them, and the importance of practical instruction. A departmental test should be organized, and the passing of it should be a necessary qualification for promotion from the lower to the higher grade for all inspectors, whether audit or administrative.

A proposal is at present under the consideration of Government for the establishment of a course of instruction in co-operation at the Madras Institute of Commerce. We understand that syllabuses have been drawn up, and that the arrangements include an examination at the end of the course, which will cover about a year, with a grading of the successful candidates into two classes according to their marks. We consider that this proposal would meet the requirements of the department. It would, we understand, cost Government about Rs 7,000 a year. We think that, as soon as

practicable, inspectors should be recruited only from men who have passed the course successfully. We consider also that the Registrar should have discretion to depute any particularly promising inspector already in the department to undergo the course.

52. *The Registrar's powers and connected matters.*—The Registrar's power to call for such information as he wants, from time to time, is limited under the existing provisions of Act II of 1912 and the rules made under it. Rule V makes it obligatory on societies to prepare and submit certain annual statements to the Registrar in such form as he prescribes. Sections 17 (3) and 35 (2) of the Act contain provisions enabling the Registrar to obtain the information he wants, but they relate to the exercise of that power only at particular times or in specified circumstances in the course of inspections and inquiries. We consider that the Registrar should have general power at any time to inspect the books, or call for any return which he may consider necessary. This power should be exercised by the Registrar personally. The Registrar of Joint Stock Companies enjoys an analogous power under section 137 (1) of the Indian Companies Act, and the rules under the Bombay Co-operative Societies Act (VII of 1925) provide for it.

If a society wilfully makes default in furnishing, or delays the submission of, the required information, the Registrar should, we consider, have power to depute a person to obtain it from the society's books, and to recover the cost of so obtaining it, up to a reasonable amount, from the society or its officers. This power to levy costs is analogous to that which the Registrar now enjoys under section 37 in regard to the apportionment of cost of enquiries and inspections, and does not amount to interference with the autonomy of a society.

The Registrar can now regulate the borrowing power of societies by virtue of the power vested in him under sections 29 and 30 of the Act and Rule VIII-B Some doubt has been expressed to us as to whether the Registrar has power to reduce the borrowing power, when once embodied in the sanctioned by-laws of a society, without first getting the by-law amended. The amendment cannot be effected without the consent of the society expressed in a formal resolution. If the society neglects or refuses to pass the resolution, the Registrar may be helpless. To obviate this possible difficulty, we consider it advisable to invest the Registrar with power to make the amendment suo motu in cases where default has occurred, so that his order reducing the borrowing power may validly and legally replace the old by-law. This power should be exercised solely for the better regulation of the business of societies, and should not be used as a disciplinary power. The reduction of borrowing power as a form of punishment is in practice worthless, for a bad society

which is not functioning does not care to borrow, and a good society which is doing business ought not to be visited with such punishment. The power should generally be used to prevent improvident borrowing, and in such cases it will operate as a healthy check. We recognize however that it involves real interference with the autonomy of societies. It should therefore be exercised only under definite safeguards. Firstly, it should be exercised by the Registrar personally, and should not be delegated by him to any subordinate officer. Secondly, it should be limited to primary societies, rural and urban, and should not extend to central banks. Thirdly, the Registrar should not pass his order without previously consulting the local union, the federation, and the central bank to which the society concerned is affiliated. He should normally refrain from taking action when there is a consensus of opinion among these bodies against doing so. Finally the Registrar should state his reasons for the order in writing.

We found one instance where a central bank lent out monies to societies affiliated to it in excess of their registered borrowing power. When the M. C. U. B. and the Registrar pointed out the irregularity, the President of the bank contended, we understand, that resolutions of the general bodies of the societies authorizing the borrowing beyond the registered maximum borrowing power would cure the irregularity and render the transaction valid, notwithstanding the by-law to the contrary, and adduced some legal opinion in his favour. If this is correct, the proposed extension of the Registrar's power would be as infructuous as the original by-law of the society. If there is any real ambiguity in the existing law, it should, we consider, be cleared up. It is obviously reasonable that a primary society, and the central bank which finances it, should be bound by their own by-laws. We consider that, if the panchayat of a society or the directors of a central bank advance loans in excess of the limits prescribed by their by-laws, as has happened in some instances that came to our notice, they should be held personally liable as guarantors of the loan, and that the rules under the Act should, if necessary, be amended accordingly.

The provisions of section 15 of the Bombay Act as to amalgamation of societies are useful, and should be extended to Madras. The operations under that section are voluntary, and without prejudice to the rights of creditors and third parties.

The Registrar should have definite power to summon meetings whether of the general body or of the board of management of any society. Such power now exists in the case of some societies in whose by-laws it has been embodied, but this is not universal. When central banks and federations are concerned, the power should

be exercised by the Registrar personally, and in other cases by an officer not below the rank of Deputy Registrar.

In Rule XIV (1), the word "may" has given rise to some difficulty of interpretation. It should be replaced by "shall," so as to exclude, without any ambiguity, the jurisdiction of civil courts, except village panchayat courts which may try suits up to Rs. 50 in value.

The Registrar should have power, either on his own motion or on the application of any party interested, to revise an award or an order of an arbitrator, in order to rectify obvious errors resulting in injustice or hardship.

We consider that the registration of the by-laws of provincial organizations, such as the P.C.U. and the M.C.U.B., should rest with the Registrar, and not be delegated to subordinate officials.

Chapter V—Final.

53. *Summary of proposals.*—In this paragraph we summarize briefly the definite proposals we make. Proposals on which we are not all in agreement are marked with an asterisk.

Paragraph 29 : Preliminary.

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1.	Immediate attention must be given to the rectification, if possible, of all dormant societies, or, failing this, to their liquidation	38
2.	If proof is available, prosecution should invariably follow cases of embezzlement	38

Paragraph 30 : Division of agricultural loans into long and short-term loans.

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*3.	Short-term loans should be defined as those repayable in whole out of the next harvest, and long-term loans as those repayable over a period of years out of the savings of the borrower	39
*4.	Societies should make forecasts of their cultivation requirements	40
*5.	Unions and central banks should consider these forecasts before the season commences, and fix suitable "limits of credit" for societies	40
*6.	Central banks need not maintain fluid resource for these limits of credit	40
*7.	Short-term loans may be granted on promissory notes which need not be registered	41
*8.	The Imperial Bank and the M.C.U.B. should be asked to dispense with such registration in the case of short-term finance	41
*9.	In primary societies, separate forms on paper of distinctive colours should be used for long and short-term loans	42
*10	Separate ledgers should be maintained	42
*11.	Long and short-term loans and deposits should be separately shown in balance sheets	42
*12.	An analysis of the loans should be appended to the balance sheet	42
*13.	The Bengal system of maintaining a register of short-term loans in societies which is signed by the borrower is recommended	43
*14.	Loan applications and promissory notes from central banks to the M.C.U.B. should be in different colours for long and short-term loans	43
*15.	Separate ledgers should be maintained in central banks for long and short-term loans	43
*16.	In the balance sheets of central banks long and short-term loans and deposits should be shown separately.	43

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Paragraph 30 : *Division of agricultural loans into long and short-term loans*—cont.

*17. An analysis should be appended to balance sheets of central banks as in the case of primary societies ... 43
*18. Similar distinctions should be observed in the M.C.U.B. 43
*19. Every effort should be made to provide for long-term credit through land mortgage banks 44
*20. When this is done, co-operative institutions should confine themselves to loans not exceeding six years ... 44

Paragraph 31 : *Agricultural credit societies.*

21. Societies should be classified according to the recommendations of the Conference of Registrars held at Bombay in 1926 44
22. Societies of the two upper classes should be given special facilities by central banks 44
23. Panchayatdars should be paid only for clerical work ... 44
24. Secretaries or clerks should receive a fixed remuneration 44
25. Payment of dividends should be discouraged 45
26. Property statements should be in stitched volumes, and should contain full details of property 45
27. Loans on the security of harvested crops should be granted freely, but only on crops actually grown by the borrower. They should not be granted unless loans for the cultivation of that crop have been repaid. There should be an adequate margin on the value of the crop, which should be secured by the panchayat 46
28. Short-term loans should ordinarily be granted on the security of personal sureties 46
29. The lien over crop, cattle, implements, etc., in respect of which loans are granted, should be converted to a charge 46
30. The lending rate to members should not be reduced below $9\frac{3}{8}$ per cent 46
31. Local deposits should be encouraged, and current accounts should be forbidden 46
32. Accounts should be as simple as possible : many of the registers now in use appear unnecessary 47
33. Overdue loans where both borrower and surety are dead should receive immediate attention, and, where they have become time-barred, panchayatdars should be made personally responsible for repayment 47
34. Overdue loans should be transferred to a separate ledger, and quarterly reports on them should be sent to the union and the central bank 47
35. A concession should be allowed on money order commission charged on sums sent through the post office 48

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Paragraph 32 : Urban credit societies.

36. Efficient, and at any rate semi-expert, management is an essential 48
37. Central banks should when necessary finance urban banks 49
38. Current accounts should be confined to members ... 49
39. Interest should be calculated on minimum monthly balances 49
40. Urban banks should be supplied with a text book on the law and practice of cheques and current accounts 49
41. Savings bank accounts should be encouraged 49
42. Single fixed deposits for large amounts should be avoided, or should be split into smaller amounts ... 49
43. Urban banks should lend to a greater extent than at present on the security of personal sureties 49
44. Ledgers should have daily balances thrown out, and interest should be calculated on the decimal product system : product tables should be supplied to each bank 50
45. Balance sheets should show the loans and deposits falling due each year, and also extensions and overdues 50
46. Thrift societies need not maintain a reserve fund ... 50
47. All urban societies should provide for savings bank accounts 51

Paragraph 33 : Societies for depressed, backward, and similar classes.

48. The Labour Department should undertake organization and supervision of all societies for these classes in districts where it is working 51
49. The Co-operative Department should audit these societies 51
50. The responsibility of the Labour Department should extend to societies organized by missionary and other philanthropic bodies 52
51. The remaining Kallar societies in Tanjore should be transferred to the Labour Department 52
52. The Fisheries Department should be responsible for all fishermen's societies, in districts where it is working 52
53. In other districts, they should be under the Labour Department 52
54. Audit reports should be supplied free to the Labour Officer and to the financing bank 52
55. Depressed class societies should, wherever possible, be affiliated to existing unions 52
56. The Labour Officer should have a seat on the federation, and the inspector a seat on the union 52
57. Loan applications should pass through the District Labour Officer or the Deputy Registrar 53

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Paragraph 33 : Societies for depressed, backward, and similar classes—cont.

58. In each district, and in Madras City, there should be one inspector for every 25 societies regardless of the total number 53
59. These inspectors should work under the District Labour Officer, or under the Deputy Registrar if there is no District Labour Officer 53
60. They should have special qualifications, and should undergo a special course of training prescribed by a board. They should be on probation till they have passed an examination under an examination board. 53
61. These societies should continue to be financed by the Christian Central Bank, which should however have freedom to refuse to finance unsatisfactory societies. 54

Paragraph 34 : Agricultural demonstration and supply societies, and kindred matters.

62. A Deputy Director of Agriculture should be employed under the Registrar to assist these societies, and should work through the ordinary departmental staff 55

Paragraph 35 : Loan and sale societies.

63. Every assistance should be given to the formation of these societies 55
64. Loans should only be given on produce grown by members 55
65. Produce should be examined as to quality and quantity, and watched to see that it does not deteriorate ... 55
66. The amounts of loans should be fixed at a definite proportion to the value of the produce, to allow for contingencies, and, especially in the case of some crops, for fluctuations in price 56
67. Produce should be under lock and key, and one key should be with the central bank 56
68. Hazardous and non-hazardous produce should be stored separately 56
69. Insurance should be fully effected, at least on hazardous produce 56
70. Policies should be in the names of the central bank and of the society, and should be held by the former ... 56
71. The central bank should periodically inspect the produce and verify the insurance 56
72. Loan and sale societies which cannot obtain finance from central banks should be allowed to finance themselves from commercial banks 56
73. The building of godowns is not, in general, a necessary precedent to the formation of such societies, but it is essential in some cases 56

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75.	A rebate should be granted to members and societies which make repayments in advance of the due dates.	57
76.	Repayments by members should be allowed either in monthly or annual instalments	57
77.	Societies should assist members in the preparation of plans, and in construction of houses	57
78.	Societies should not be forced to acquire land for roads, nor to construct roads or side drains	58
79.	The rate of interest on Government loans should be reduced by one-half per cent	58
80.	The rate of penal interest should be reduced	58
81.	A revised form of ledger should be introduced ...	58
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82.	Expert management is essential	58
83.	These societies should not be established in villages or in small towns	58
84.	A system of joint purchase on the indent system is more suitable to villages	58
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86.	Government should consider the advisability of directing district officers of the nation-building departments to hold periodical conferences to co-ordinate their activities : presidents of federations and central banks should be invited to attend them	59
87.	The Co-operative Department should do all in its power to assist the rural reconstruction movement... ...	59
	Paragraph 40 : Central banks.	
88.	No further steps should be taken in the near future to eliminate individual shareholders	60
89.	The board of management should be limited to 21 members: 14 from unions and 7 from individual shareholders	60
90.	Representatives of individual shareholders should be elected by the full general body	60
91.	The district should be divided into areas, and unions in each area should elect common representatives every two years	60
92.	Banks should be allowed to co-opt to the board of management persons with special knowledge, who should not have votes	60

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Paragraph 40 : *Central banks*—cont.

93. The by-laws should provide for a separate secretary and treasurer 60
94. There should either be a paid secretary, or a competent manager if the secretary is honorary 61
95. The same man should not be secretary of the central bank and the federation, but the presidents should be common to both 61
96. The borrowing power should not be further increased... 61
97. Cash should be kept in a fire-proof safe under double lock 61
98. Cashiers should give security 61
99. Cash should not be left with primary societies... ... 61
100. Accounts should clearly show repayments in respect of each promissory note 61
101. Promissory notes deposited as security for cash credits should be accompanied by a 'continuing guarantee agreement' 61
102. Banks should pay more attention to the fixing of proper periods of loans, and convenient dates of repayment. 61
103. When crops fail, short-term loans should be freely extended : where they have not failed, repayment should be insisted on, and further loans refused to societies in default 62
104. Where loans are granted to societies organized for labour, payments for contracts should be made direct to the bank 62
105. Rate of interest on loans to societies should be reduced wherever possible to 7½ per cent 62
106. Banks should exercise more caution in taking current accounts, and a text-book on these matters should be prepared 62
107. Economy of labour may be effected by improving the form of accounts 62
108. Banks should encourage the formation of loan and sale societies 62
109. In any year when profits permit, a previous shortage in dividends may be made up to shareholders ... 63
110. Books should invariably be closed on June 30th ... 63
111. Collecting agents should not be sent out at the close of the year if collection at that time is inconvenient to the ryot 63
112. Banks should keep a register of the history and financial condition of each society 63

Paragraph 41 : *The Madras Central Urban Bank.*

113. The number of representatives of individual shareholders on the board of management should be increased 64
114. The bank should be encouraged to co-opt on the board of management persons with special knowledge, who should not have votes 65

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Paragraph 41 : *The Madras Centrzl Urban Bank*—cont.

115. It should inspect central banks which it finances ... 65
116. The borrowing power should not be further increased. 65
117. The Christian Central Bank should be affiliated to the bank 65

Paragraph 42 : *Land mortgage banks.*

Central land mortgage bank.

118. A central land mortgage bank should be formed ... 65
119. Its total debentures should not exceed in value 50 per cent of the value of the total properties mortgaged to primary land mortgage banks 65
120. Primary land mortgage banks and individuals should be members : the latter should not be allowed to borrow 65
121. Dividends should not exceed 7½ per cent 65
122. There should be a trustee or trustees for debenture holders : the latter should be represented on the management 65
123. A reserve fund should be rapidly built up 65
124. The maximum borrowing power of the bank should be 25 times its paid-up capital and reserve fund ... 65
125 Government for five years should guarantee the interest on debentures, which should be trustee investments. 66
126. The period of debentures should not exceed 25 or 30 years, and of loans 30 years 66
127. Interest on loans should not exceed 9 per cent, and re-payment should be by the equated system 66
128. The bank should only finance primary land mortgage banks 66
129. It should not accept short-term deposits 66
130. A sinking fund should be provided for 66
131. Provision should be made for the redemption of debentures 66

Primary land mortgage banks.

132. Government should lend each primary bank, in its initial stages, an officer to value properties and to assess the credit of borrowers 67
133. Legal opinion should be taken on title-deeds 67
134. Banks should have a paid staff 67
135. Rules to ensure prompt repayment should be drawn up, and strictly observed 67
136. The maximum borrowing power of members should be raised to Rs. 5,000, but the interests of small borrowers should not be neglected 67
137. The present area of operations should be extended ... 67
138. Loans should be non-recallable, provided the borrower fulfils the conditions of the loan, but borrowers should be permitted to repay in advance, wholly or in part, on giving due notice 67

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	Primary land mortgage banks—*cont.*	
139.	The possibility of mortgages being annulled under the provisions of Insolvency Law should be investigated.	67
140.	Subsequent loans by Government should not take precedence over loans granted by these banks ...	67
141.	Banks should have power of sale, subject to necessary conditions	68
142.	Dividends should not exceed 9 per cent, and every effort should be made to build up adequate reserve funds.	68
143.	A separate legal enactment should be passed to deal with these banks	68
144.	Government should do all in their power to encourage Indian insurance companies to invest in the debentures of the central land mortgage bank	68
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145.	The Registrar should arrange periodical conferences of officials and non-officials	69
146.	He should not embark on any important change of policy without first consulting non-officials	69
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147.	Each central bank should be responsible for the inspection of the primary societies which it finances ...	70
148.	It should receive audit reports and reports from unions.	70
149.	Where necessary, it should enquire into the affairs of a society	70
*150.	If a bank considers the condition of any union or primary society unsatisfactory, it should ask the federation or the union concerned to take necessary action. If the union or federation fails to take such action, the bank should refer the matter to the Registrar, who should take action, through the bank or otherwise	70
151.	Unions should be encouraged to co-opt members ...	70
152.	The responsibility of a union should include the various points specified	70
153.	Members of the governing bodies of unions should frequently visit societies	71
154.	The union should forward an annual report on each society to the Deputy Registrar and to the central bank	71
155.	Federations should give adequate representation to central banks	71
156.	Federations should exercise general supervision over unions, union supervisors, and office bearers, employing an adequate staff for the purpose	72
157.	Union supervisors should be on a district cadre under the general control of the federation	72
158.	Federations and unions should be responsible for propaganda and the organization of new societies ...	72
159.	The supervision fund should be centralized in each district	72

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161.	Central banks should collect society contributions ...	72
162.	Supervision fund should be a first charge on the revenues of central banks and primary societies ...	72
163.	It should be made over to the federation, or such non-official agency as the Registrar may prescribe, which should contribute from it to unions	72
164.	In weaker districts, where the supervision fund is inadequate, Government should contribute to it ...	73
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165.	The Registrar should hold office for five years ...	73
166.	There are advantages in the appointment as Registrar of an Indian gentleman	73
167.	When a new Registrar is to be appointed, he should be attached to the department for at least six months before taking office	73
168.	The old arrangement of having an officer of the standing of Deputy Registrar for each district should be reverted to	73
169.	There should be one for each district except the Nilgiris and Madras	73
170.	Assistant Registrars should be abolished, but an officer, preferably of the same status, should be appointed personal assistant to the Deputy Registrar in each district	73
171.	There should be a second personal assistant in Coimbatore and Chingleput, in charge of the Nilgiris and Madras City	74
172.	The practice of appointing Deputy Registrars or their assistants from other departments should be restored, and the Registrar should also be empowered to make appointments by direct recruitment	74
173.	There should be at least one audit inspector for every sixty societies	74
174.	There should be at least three administrative inspectors in each district, other than those required for audit and non-credit work	74
175.	There should be a reserve of 10 per cent for leave and training...	75
176.	There should be four inspectors for Madras City ...	75
177.	Union supervisors should be required to pass an examination recognized by the Registrar	75
178.	They should be eligible for promotion to the inspector grade in the department	75
179.	An officer should be placed on special duty for four months to consider a reduction in the number of returns, and the simplification of the office system generally : he should also investigate the possibility of further delegation of powers	76
* 180.	If funds permit, each inspector should have one peon...	73

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Paragraph 46: Audit and audit unions.

181. The auditor should carry out the various duties detailed 76
182. His first duty should be the verification of the cash balance 77
183. The audit report should provide for a clear and definite statement that all assets and liabilities have been fully verified, and should include detailed reports of irregularities 77
184. Societies should be audited in two groups, for the years ending on June 30th and December 31st respectively. 77
185. Cash balances should be verified at both the preliminary and final audits 78
186. The Deputy Registrar or his personal assistant should super-audit 5 per cent of societies. 78
187. Audit reports of societies should be supplied free of cost to central banks and unions. Others should be allowed either to make copies, or to obtain them on payment 78
188. Central and urban banks should pay for their concurrent audit 79
189. They should also pay for their final audit, with the exception of urban banks with a working capital of less than Rs. 50,000 79
190. A central audit organization should be formed for central and urban banks 79
191. The cost should be allocated to affiliated banks in proportion to their transactions 79
192. Where the organization does final audit, which would otherwise have been done free by the department, the department should make grants in respect thereof ... 80

Paragraph 47: Reserve funds.

193. The rate of interest on loans made by a central bank to a society, up to the amount of its reserve fund deposited with that bank, should not exceed by more than 1 per cent the rate allowed on such deposits ... 80
194. Central banks and primary societies should be encouraged to invest their reserve funds in redeemable Government securities 81
195. When the reserve fund of a primary society exceeds 20 per cent of its working capital, the excess may be used in its own business 81
196. Consumers' and producers' societies, which do not accept deposits or give loans, may use all their reserve funds in their business 81
197. When reserve funds are in Government securities, these securities should not be used as cover for borrowings. 81

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Paragraph 48 : *Fluid resource.*

198. The standard of fluid resource to be maintained by limited liability societies with deposits under Rs. 20,000, and by unlimited societies as a whole, may, for the present, be left to the discretion of the Registrar ... 82
199. The standard of fluid resource in central banks should be 30 per cent of fixed deposits falling due within the next six months, or 50 per cent of those falling due within the next 30 days, whichever is from time to time the higher 83
200. The due dates of repayments of large deposits should, as far as possible, synchronize with the period when repayments may be expected, and such deposits should, wherever possible, be split into smaller sums, the due dates of which should be spread over a suitable number of months or years 83
201. Central banks should exercise more care than at present with regard to current accounts. If the precautions recommended are taken, the present standard of 50 per cent may remain 83
202. Savings bank accounts should be confined to savings, and not utilized as current accounts 83
203. In urban banks, every effort should be made to work up to the standard recommended for central banks, although we realize the difficulties in doing so ... 84
204. The Registrar should endeavour to help urban banks by obtaining cash credit facilities for them on the collateral security of their members' promissory notes 84
205. If central banks agree, it is safe for them to concentrate their cash credits with the M.C.U.B. 86
206. The undrawn cash credits of central banks with the M.C.U.B. should be included in their fluid resources. 86
207. The existing arrangements regarding the form in which fluid resource should be kept are sound, and need not be changed, but steps should be taken to ensure that the continuance of the present facilities in the matter of cash credits given to co-operative bodies by the Imperial Bank is made obligatory on the bank by some statutory provision, contractual guarantee, or other suitable method... 89

Paragraph 49 : *Deposits by local bodies, etc.*

208. A higher standard of fluid resource is necessary in the case of current accounts 90
209. Interest thereon should be calculated on minimum monthly balances 90
210. Efforts should be made to arrange that deposits of more than Rs. 10,000 are repayable when repayments are expected from societies 90
211. Such deposits should be accepted from local bodies only on condition that six months' notice of withdrawal is given 90

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212.	On receipt of such notice, banks should advise the Registrar, and state what steps are being made to meet payment: a further report should be made after three months	90
213.	In addition to the fluid resource required for other deposits, at least 66 per cent of the amount required should be available two months before repayment is due, and the Registrar should be so informed ...	90
214.	Deposits from local bodies, etc., should not be accepted in excess of four times the share capital plus reserve fund of the bank, except with the Registrar's sanction	91
	Paragraph 50 : Arbitration, liquidation and execution.	
215.	Each Deputy Registrar should maintain a panel of suitable non-official gentlemen as honorary arbitrators, who should have a small staff, and be given travelling allowance	91
216.	It is important that immediate attention should be paid to dormant societies, which should either be revived or liquidated	91
217.	Liquidation should be entrusted to suitable non-officials, where such are available, who should receive as remuneration 5 per cent of the amounts realized ...	91
218.	The Registrar should be enabled to give directions to liquidators from time to time	92
219.	The liquidator should be enabled to determine the contributions to be made from time to time, and not once for all	92
220.	The estate of a deceased member should be a contributory asset	92
221.	The period for which the estate of a deceased member is liable should be extended to two years	92
222.	A liquidator should have power to refer matters in dispute to arbitration	92
223.	Provision should be made for the disposal of books after liquidation	93
224.	A ledger should be maintained showing the demand against each member, and the collections from time to time	93
225.	The preliminary decree in the case of mortgage loans should be final	93
226.	If a separate Co-operative Act is passed for Madras, it should include provisions similar to those in sections 50 and 51 of the Bombay Act	93
227.	The limit of 40 cases per taluk that may be sent to a Tahsildar for execution should be removed	93
228.	Otherwise, honorary arbitrators should be empowered to execute their own decrees	93
229.	Village panchayat courts should be given powers of execution for sums not exceeding Rs. 50, even where they have not passed the decrees themselves ...	93

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	Paragraph 50 : *Arbitration, liquidation and execution*—cont.	
230.	A special staff should be employed for execution, and its cost should be recovered from defaulters ...	93
231.	Officers authorized by the Registrar should be empowered, on the application of the society concerned, to recover overdue instalments of loans as if they were arrears of land revenue	93
232.	This power should not extend to the arrest of the defaulter, nor to the sale of his immovable property.	93
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233.	Education of non-officials should be the duty of the P.C.U., working through federations	94
234.	Government should give it a grant-in-aid	94
235.	Government should give an annual grant of Rs. 1,000 to each federation for education and training	94
236.	Courses of instruction should be arranged in consultation with the Registrar	94
237.	Demonstration motor-vans should tour the Presidency, in charge of a specially selected officer	95
238.	The training courses laid down for the official staff should be carefully followed, and suitable men should be given leave to study outside the Presidency ...	95
239.	Before promotion to the higher grade, all inspectors should be required to pass a departmental test ...	95
240.	Inspectors should be recruited only from men who pass the proposed course in co-operation at the Institute of Commerce, and the Registrar should be empowered to depute suitable men already in the department to undergo this course	95
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242.	If a society makes default, or delays the submission of the books or the return, the Registrar should have power to depute a person to get the necessary information at the cost of the society	96
243.	The Registrar should have power *suo motu* to amend the by-laws of a society to reduce its borrowing power, subject to definite provisos. This power should not extend to central banks	96
244.	If a society lends or borrows in excess of its by-laws, the panchayat or directors should be personally responsible for the loan	97
245.	The Registrar should have power to summon meetings of the general or governing body of any society ...	97
246.	In rule XIV (1) the word 'may' should be replaced by 'shall'	98

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Paragraph 52: The Registrar's powers and connected matters—cont.

247. The Registrar should have power to revise an award or order of an arbitrator 98
248. The registration of the by-laws of provincial organizations should rest with the Registrar, and should not be delegated to subordinate officials 98

54. *Final.*—We have tried to work out the cost of our proposals, but have found it impossible to frame an accurate estimate. We realize that they will involve a considerable increase in expenditure, though some of our proposals under audit will result in a saving. We are however satisfied that this increase is necessary. In many respects the co-operative movement in Madras is in an unsatisfactory condition, but none is, we consider, fraught with greater potential benefits to the country. Further, the figures given in paragraph 24 show that the present Government expenditure, per member, is lower in Madras than in any other province of India, except the United Provinces.

When Government asked us to become members of this Committee they suggested that the Committee would complete its work in between three and four months. It has taken us full four months. The magnitude however of the task proved such that a longer period would have been advantageous.

Our grateful acknowledgments are due to the Registrar, Mr. Hood, the Joint Registrar, Deputy Registrars and the staff of the Co operative Department generally, for the whole-hearted assistance ever given to us both in Madras and throughout the Presidency. Our thanks are also due to the various honorary workers who freely gave up their time to assist us in our enquiries.

Finally, we desire to record our cordial appreciation of the services of Mr. Cooke, our Secretary, and his staff, who always discharged their duties promptly and satisfactorily.

23rd January 1928.	(Signed)	C. A. H. TOWNSEND.*
26th January 1928.	(„)	R. H. ELLIS.*
24th January 1928.	(„)	E. P. STOCKER.*
23rd January 1928.	(„)	V. RAMADAS PANTULU.*
31st January 1928.	(„)	G. K. DEVADHAR.**
23rd January 1928.	(„)	T. A. RAMALINGAM.*
23rd January 1928.	(„)	K. T. PAUL.

* Subject to minute of dissent.

** .... not received.

Minute of Dissent by Messrs. Townsend, Ellis, and Stocker.

We agree with our colleagues on the standard of fluid resource recommended, but we differ from them on the important question of the form in which it may be held. Originally fluid resource was composed only of cash and Government securities. It was then proposed that the undrawn portion of cash credits be included. The matter was discussed at a Simla Conference, when opinion was adverse, and in G.O. No. 1054, Revenue , dated March 16th 1918, its inclusion was prohibited. In however G.O. No. 1427, dated August 3rd 1920, it was ordered that fluid resources should denote the cash balance on hand with the bank, plus undrawn cash credit with the Bank of Madras, plus 80 per cent of the market value (as noted in the daily papers) of Government promissory notes. We do not however think that Government intended that a central bank should hold *all* its fluid resource in the form of undrawn cash credit.

The Maclagan Committee was in favour of accepting as fluid resource the undrawn portion of a cash credit with the Provincial bank or the Presidency bank, provided that there existed a moral certainty that such bank will not withdraw the accommodation without adequate notice (paragraph 153). Such "adequate" notice however could not be of long duration in periods of financial stringency, and it is at such times that the greatest need for substantial fluid resources would arise. It must also be realized that, whatever "moral certainty" may exist, such cash credits are legally recallable on demand. A bank's first duty is to its depositors, and, at a time of widespread financial stress or of a crisis in the co-operative movement itself, it is possible, even probable, that the cash credit facilities would be curtailed: it is at such times that fluid resource is most necessary.

It should further be noted that the Maclagan Committee states that its recommendation is "for the present" (paragraph 134). Also it is only fair to that Committee that its whole fluid resource proposals should be considered together. They include a recommendation for a fluid resource in the case of the Provincial banks of "one-third of the possible liabilities of the bank falling due in the ensuing year" (paragraph 176). In the case of central banks it recommends one-half of the fixed deposits falling due in the ensuing year (paragraph 155), 75 per cent of savings bank accounts (paragraph 128), and 100 per cent of current accounts (paragraph 127). These standards are far higher than those in force or than those now suggested by us. In paragraph 218 they state "we consider it unsound and dangerous to place too much reliance on such help" (viz., the help

of commercial banks). In recommending such high standards of fluid resource, the Maclagan Committee had to sanction some relaxation in its form to enable the banks to continue working; but, in view of its obvious hesitation in giving such sanction, we do not think that it would have agreed to it combined with the much lower fluid resource standards of to-day. We feel confident that it would have given no support to the practice adopted by many central banks of relying entirely on their undrawn cash credit: no commercial bank would in our opinion have given a cash credit for an amount equivalent to the full amount of fluid resource required by the high standards recommended by the Maclagan Committee, and this practice therefore could not, we think, at that time have been foreseen.

The figures quoted by our colleagues show that, out of a total Rs. 1,02,52,000 representing cash credits on the security of demand promissory notes granted by commercial banks to co-operative institutions in India, Rs. 54,31,000 relate to the Madras Presidency. It would appear therefore that the practice of relying largely on cash credits as fluid resource is peculiar to this province. Our colleagues give other figures showing the fluid resources of co-operative institutions in the Madras Presidency: the amounts however of cash on hand differ very largely from bank to bank, and several banks normally maintain only sufficient for their till requirements and rely otherwise on their undrawn cash credit.

It has been proposed to concentrate the fluid resource in the M.C.U.B.: it is argued that, as the central banks are shareholders in this institution, their interest would be safeguarded. In the absence however of definitely earmarked cover in the shape of Government securities we think this would be unsafe, as, in a crisis in the co-operative movement, the M.C.U.B. might feel the strain at the same time as the central banks, and, as in the case of other banks, its first duty is to its own depositors.

It would be difficult for some central banks to adjust their fluid resource to the necessary figure by the continual purchase and sale of Government securities, and we do not therefore propose to remove the present facilities altogether. We suggest that, for the present, 25 per cent of fluid resource should be allowed in the shape of undrawn cash credit with the Imperial Bank: the balance should be held in cash and Government securities. The securities however should be in a form redeemable at a comparatively early date, as other Government securities are subject to greater fluctuations in price.

We feel very strongly that the holding of appreciable tangible liquid assets by the central banks is very necessary as a protection to the agriculturist. If such precautions are not taken, it may be necessary in times of stress to resort to the wholesale calling in of loans,

with the result that the security afforded by unlimited liability would have to be realized. This security has frequently been quoted as a reason why co-oporative banks differ from commercial banks and why the former need not adopt the business precautions of the latter. We strongly protest against this view. The enforcement of unlimited liability on any large scale is too serious a contingency to contemplate. It would mean the ruin of agriculturists not only for their own debts, but for those of others. No financial saving to the banks can justify this danger. It is probable also that, as a security, unlimited liability would not prove effective, as in many districts purchasers would not be available for the land.

Our proposals are not intended in any way to curtail the present finance obtained by co-operative banks from commercial banks, but only the purpose for which the finance is used: such finance would be more freely available for short-term credit if the co-operative banks hold their own liquid assets: it will be noted in the paragraph on long and short-term loans that we anticipate a large expansion in short-term business with the extra facilities we there suggest.

Certain other recommendations in the main report to which we have subscribed are dependent on the adoption of our proposals regarding fluid resource, e.g., those referring to—

(1) the continuation of long-term loans: greater fluidity is required in the absence of tangible liquid assets;

(2) rediscount facilities with the proposed Reserve Bank;

(3) deposits of public bodies etc., with central banks;

(4) maintenance of current accounts by central banks;

(5) the constitution of the M.C.U.B. and of central banks as, if the availability of the fluid resource is in question in times of emergency, much greater precautions are necessary to prevent such contingency arising, and this would require financial skill of the very highest order. Even then, trouble in another province may re-act on the banks in Madras by causing general distrust in the minds of depositors.

We have been unable to ascertain the methods adopted in relation to fluid resource in other countries. Conditions in general however differ from those in India: in particular we understand that in some cases banks are linked directly with joint-stock banks by the election of directors common to both or in some other way, and that in others there is a form of Government guarantee.

C. A. H. Townsend.
R. H. Ellis.
E. P. Stocker.

Minute of Dissent by the Hon'ble Mr. V. Ramadas Pantulu.

I. Supervision.—It is with a sincere feeling of regret that I have decided to record a note of dissent from some of the recommendations of the majority of the Committee on the question of supervision. I do so with a full sense of my responsibility and due respect to the judgment of my colleagues from whom I am constrained to differ. No subject involved in the enquiry under report has caused me greater anxiety, or perplexed me more, than the question of the establishment of proper links between the official and non-official agencies on the one hand and the non-official agencies *inter se* on the other. There was conflict and confusion at every turn. There was no definition of duties and no demarcation of powers. Audit, inspection, administration, supervision, control and other terms were employed without any clear perception of their appropriate relations to the various agencies. It is true that these functions overlap to some extent in actual practice, specially in their operation on the simple mechanism of the rural credit society, which has no departments and no bureaus such as could be marked off for entrustment to the exclusive control of distinct agencies. Nevertheless, it became evident that, without defining and delimiting functions in some manner, it was impossible to extricate the co-operative machinery from the deadlock that has crept into its working. The recommendations which the Committee has made for the solution of this intricate problem are briefly these—

Audit is shortened but made to conform closely to the statutory requirements. Inspection is tacked on to finance; and supervision is divorced from finance. Audit is assigned to the official staff; finance with its incidental inspection, to the central bank; normal supervision to the unions assisted by the federations; and supplemental and residuary supervisory control to the Registrar's administrative inspectorate. The Committee proceeds to supplement these proposals by the following recommendations to protect the financial interests of the movement: "If there is anything needing enquiry in these (audit) reports, or if for any reason whatever the bank desires to do so, it should make its own detailed enquiry into a society's affairs, either by one of its directors or by its own paid inspector. It should then take such steps as it desires to safeguard its financial interests. In the first instance this should be done through the union or the federation, but, if the necessary action is not undertaken by these bodies, the bank should address the Registrar in the matter, who should either empower the bank to take the necessary steps itself, or act in such way as he thinks fit."

It is now for me to state how far I am in agreement with these recommendations and wherein I disagree with them. I am in agreement with these recommendations in so far as they confine the departmental activities to the discharge of statutory functions and of the ultimate responsibility to the movement and allocate the non-statutory functions to the non-official agencies. I am also in general agreement with the proposal to assign the normal administrative supervision to the unions assisted by the federations and the power and the responsibility of inspection to the central bank. These proposals are in consonance with the undisputed notion of the local supervising union being the most appropriate institution to be entrusted with supervision. The federations are created in the hope that they will strengthen and co-ordinate the activities of the unions by putting their supervisory staff on a district cadre, by educative and propaganda work on a district-wide scale and by other means. I agree that an attempt should be made to so equip the federations as to fulfil the expectations raised of them. If the unions and federations function properly and if audit is efficient, the central bank will be in a position to safeguard its financial interests by carefully exercising its power of inspection and may not, and normally will not, wish for more power or responsibility. So far, I am with the Committee.

But I am in emphatic disagreement with the Committee's recommendations in so far as they proceed to state that the supervision required to supplement the work of the unions and the federations should come from the official agency and not from the central banks and that, even if the unions and federations fail to safeguard the financial interests of the movement, the central banks should not step in to rectify matters, unless empowered by the Registrar to do so, but depend upon the departmental help. My reasons for dissenting from this view are threefold. *In the first place*, these proposals strongly militate against my convictions that the non-statutory functions should be fully shared by the non-official agencies and that any *immediate* responsibility for their discharge should not be vested in the department, as such a course is bound to result in real interference by the departmental staff with the autonomy of the organizations.

Secondly, the proposal involves a distrust of the central bank which is both unmerited as well as unfounded. I cannot see why the central bank should require the leave of the Registrar to take the steps needed to safeguard the financial interests of itself, which are identical with those of the entire movement. If the reason is that the action of the central bank involves interference with the societies, then, how is the interference by the official agency justified? The central bank is, in theory as well as in actuality, a federation of societies concentrated for finance. The societies

are most effectively represented on its general body. Moreover the rural credit society and the central bank are knit together by ties of financial community of interest. The theory that the individuals in central banks exercised deleterious influence on the societies' interests, completely broke down during the enquiry. Moreover the individual members are everywhere in a minority (vide statement appended). I therefore refuse to subscribe to the doctrine that central banks' interests are in any manner adverse to those of the societies. I am also unable to agree with the view that the departmental inspector is a better alternative to the central bank's inspector to step in when the unions and federations fail. These departmental men do not possess the status and equipment necessary to make them real teachers and advisers of the co-operative organizations. Their constant interference with the work of the unions and of the societies will, in my opinion, tend. to further weaken such sense of responsibility as there may be now left in them. It is not unlikely that their work may sometimes actually clash with that of the supervisory bodies. The department will blame the institutions if things go badly, and will claim credit if the societies and unions work well. Further, the argument against the central banks taking up the supplemental and residuary supervision, namely, that it should be proximate and done by those having a community of interest, applies equally, if not with greater force, to supervision by the administrative inspectors of the department. The bulk of the evidence is against departmental interference in non-statutory functions. No doubt a few witnesses allowed their zeal for the federations to get the better of their co-operative principles when they said that they preferred official interference to central banks' supervision, when unions and federations failed to discharge their duties. But they do not represent the genuine co-operative opinion of the Presidency. Departmental supervision, which was largely exercised until recently, was not such as to inspire much confidence, and indeed there are some informed co-operators who attribute some, if not most, of the present troubles to that supervision. It is a matter for regret that the questionnaire was altogether silent about the departmental activities and gave no chance to the Committee of bringing those activities within the scope of its enquiry. The Committee was mainly occupied with the question of the numerical strength of the official staff.

My *third and last reason*, which has indeed weighed with me most, is that the Committee's proposal does not help to solve the difficulties with which the movement is immediately faced, but on the other hand, it only aggravates them. In its laconic statement about the present financial condition of the movement, the Committee states: "Anxiety is however felt on *some matters*, *especially* the increasing amount of overdues, and *immediate steps* should,

we *most strongly urge*, be taken to remove it " (vide page 37). What the other matters are on which anxiety is felt, the Committee does not state. It is well-known that other serious irregularities, frauds, and embezzlements also exist in not a few organizations. What are those *immediate steps* necessary to remove the anxiety felt on these matters and *who is to take them*? This, I presume, is an imminent problem with which the movement is at this moment confronted even according to the Committee. It was indeed this problem that led to the very appointment of the Committee. Let me state the character and magnitude of this problem before I point to the agency which can handle it. The financial condition of the societies, with reference to overdues, as analysed by the Registrar in his latest Annual Report (1926–27), discloses the disquieting fact that out of 9,515 societies so analysed, 2,015 societies exhibit overdues between 30 and 45 per cent of the demand, and 3,158 societies account for overdues of 60 per cent and over of the demand, while 2,671 societies are dormant. It is thus evident that 75 per cent of the societies demand immediate attention. The position of the societies with reference to their vitality, as analysed in the answers furnished by 27 central banks to the supplemental questionnaire, unfolds the same tale. Out of the 9,333 societies affiliated to these 27 central banks, 998 have not borrowed subsequent to the initial loan; 1,363 societies have not borrowed for the last three years, and 1,613 societies have not borrowed for the last two years. These societies must now be considered to be dormant.* The cessation of borrowing by societies from central banks, is a clear indication of their dormancy, for few societies have any deposits of their own to be lent out to their members. The recovery of the overdues cannot possibly be effected without a thorough investigation into the affairs of all the bad societies, and a prolonged and careful process of rectification and consolidation. The problem therefore reduces itself to this : what is the agency by which the rectification and consolidation of the dormant and semi-dormant societies are to be taken up, so as to ensure the speedy recovery of the huge overdues, and to restore the finances of the movement to a sound, stable, and secure position? In other words, how are the financial interests of depositors, and of the central banks in which the depositors have placed their trust, to be effectively safeguarded?

Are the unions and federations, to whom the Committee points the central banks, now in a position to take " the immediate steps " which the Committee " most strongly " urges to remove the anxiety caused by the overdues? It must be remembered that the central banks turn to step in comes only after the examination of audit

* It is unnecessary to vouch for the strict accuracy of either sets of these figures quoted above, for they may include a few societies which, having been newly formed, have not yet started work. Such cases will be few and will not affect my argument.

reports which come in at the end of the year, by which time unions have had their chance and failed already. Another chance may be given them. What next is the problem ? It was frankly conceded in the evidence that even federations of long standing, like those of South Kanara, Salem and North Arcot, are unequal to the task. As for the unions, I am content to cite the testimony of the Registrar himself which appears at page 10 of the latest annual Administration Report (1926–27): " It does not appear that the supervising unions on whom rests the responsibility for the upkeep of the societies' credit, have generally made any serious attempts to check the increasing overdues in spite of the advice tendered in the previous year's report that if this tendency is allowed to grow unchecked, it may lead to *financial chaos* ". I do not accept the plea that lack of adequate monetary help is the sole cause for their weakness. There are other causes to be remedied before they can come up to the expected standard. Assuming for a moment that financial troubles alone account for the dormancy of many of them, do the proposals of the Committee secure for them all the money needed to equip them for the task that immediately awaits them, namely, of undertaking the work of rectification and consolidation of all bad societies ? On the Committee's financial proposals for strengthening the unions and federations, the average annual income vouchsafed to a union will be Rs. 1,000 and to a federation, Rs. 2,000. This income will be absolutely insufficient to enable the federation to embark on a scheme of rectification and consolidation and has to be supplemented by liberal grants by the State and the central banks. Crediting the State and the central banks with the best of intentions, the monetary assistance which they are likely to render to the unions and federations, is not likely to be of that magnitude which will enable them to create a non-official staff, adequate to cope with the work that it is expected to launch upon, before it is too late to save the movement. I adduce these facts merely to show that the most enthusiastic and optimistic organiser cannot make these bodies potent factors for safeguarding the financial interests of the movement before some appreciable time elapses. I am not obsessed by their past history, nor do I overlook their potentialities for the future under altered conditions. But I must indeed be extremely over-credulous to believe that the Committee's recommendations will at once transform them into efficient bodies, and that the central banks and others interested in the financial stability of the movement have merely to possess their souls in patience for a short while.

Now let me take a rapid survey of the efforts that were being made by co-operators in this Presidency, before the Committee was appointed, and examine how far the recommendations from which I dissent fit in with those efforts. The Fifteenth Madras Provincial

Co-operative Conference (1927) voted for the unions, federations and central banks co-operating to create a large body of efficient and trained officers consisting of two classes, one corresponding to the grade of union supervisors and the other of a higher calibre, to exercise intelligent supervision and to immediately embark on a scheme of rectification, consolidation and expansion on correct principles of co-operation, besides carrying on the much-needed educative and propaganda work. The central banks began to move on similar lines even earlier. The Central Banks' Conference at its session held on 8th May 1926, passed the following resolution:—

"This conference of representatives of central banks is of opinion that, considering the growing losses in the village societies and considering the increasing overdues both in the village societies and from the village societies to the central banks, the time has come for a thorough investigation of the state of societies individually. * * * For this purpose, the central banks will consider the desirability of appointing a special staff *to help the unions*, with a view not only to investigate the state of affairs of societies, but also to take necessary action in the matter immediately."

At its next session held on October 2nd, 1926, it reinforced its resolve to urge upon the central banks the necessity for an immediate investigation into the condition of societies and supplementing the supervision work of the unions in that connection. These resolutions were worked by some of the central banks. Salem, Chittoor, Kistna, Kurnool, Kumbakonam, Tanjore, Malabar and Srivilliputtur appointed additional staff to carry out the programme. In some other districts, namely, Chingleput, North Arcot, Coimbatore, South Kanara, and Madura, the work was taken up by the federations with the concurrence and assistance of the central banks. East Godavari also seems to have been moving on the same lines. The Madras Central Urban Bank actively encouraged these schemes for rectification and consolidation by offering some financial facilities to the central banks which have signified their consent to carry them out, either by their own agency or through the medium of the district federations. The answers of the central banks to the supplemental questionnaire bear out that the central banks have all recognized the value of the lead given by the Madras Provincial Co-operative Conference, the Madras Central Urban Bank, and the Central Banks' Conference, and are prepared to follow it. Efforts along these lines have the supreme merit of enabling the financing and the supervising agencies to co-operate in creating a body of non-official staff competent and ready to undertake the work of rectification and consolidation.

Endeavours thus set on foot after much deliberation have however already received a marked set-back by the open hostility of the department towards the central banks' participation in the work of

supervision, rectification, and consolidation. Indeed in the very opening sentence of his written answers to the questionnaire, the Registrar characterizes supervision by the central banks as one of the dangerous tendencies of the movement, which has to be checked. He emphasized and elaborated the point in his oral evidence. It has become a recognized cult of departmental officers to preach the doctrine that the central bank, as an outside body, should have no part or lot in supervision, except so much of it as may be involved in inspection, pure and simple. The recommendation of the Committee on this point undoubtedly proceeds on lines of least resistance so far as the department and the left wing of the federationists are concerned. I feel that the inevitable result of it will be to accentuate the existing differences. The antagonisms between the federation and the central bank which have developed so soon (within the first three or four years of the creation of the federation) are not imaginary; and if they are so intense now, what they will be in the next few years, will be difficult to speculate, unless the present tendencies are checked. The way to check them does not lie along the lines adopted by the Department and the Committee. The right path, as I already pointed out, lies in the direction of conceding the right of all non-official agencies to share the non-statutory functions, and of encouraging the central bank and the federation to combine to organize a superior and well-trained staff for field work. Once a ban is placed on the central bank's participation in this enterprise, the chances of harmonious team work between the financing and supervising agencies are destroyed. The only course that is left open to the central bank will be to refuse to finance the societies and resort to courts or arbitrators for recovery of overdues in areas where no adequate facilities for the safeguard of its financial interests exist. This extreme measure will not only lead to open hostilities between the bank and unions and the federation, as it has already done in some places, but will also severely hit the societies themselves which are the pivot of the movement. The consequence of non-official agencies, which are primarily and exclusively interested in the efficiency of supervision and control over the several organizations, thus quarreling over the division of functions is to acquiesce in some at least of those functions passing into the hands of a third party, the department, which normally ought to have only the *ultimate* and not the *immediate* responsibility for supervisory control. There is no doubt that the differences between the non-official agencies are fully exploited for the purpose of making all of them more and more dependent upon the department in actual working though not in apparent theory. If these differences persist, as I am afraid they will, when the inclinations of the department and the recommendations of the Committee are adhered to, the entire control and supervision should once again inevitably pass into the official hands,

or the movement should be wound up. The department would have been well advised if it stood for strengthening supervision by properly and effectively training supervisors and higher grade inspectors employed by non-official agencies, by giving subventions to supervisory bodies as in Bombay and the Punjab, to enable them to recruit better men and by other similar methods, instead of asking for an inspectorate to run a parallel administration for the discharge of the functions which legitimately pertain to the non-official bodies.

Suppose we waive all our objections to the department taking " immediate steps ", which the Committee " most strongly " urges, are necessary to remove the causes of the anxiety felt by co-operators, can the department do it? The pulling up of these societies is not, in my opinion, possible by departmental activities. To achieve the end in view, something more than the sporadic and mechanical activities of a department of the State is required. An intimate, intense and continuous personal interest must be infused into the work of rectification. The personnel of the department must vary from time to time, while the immediate work before us must be spread over a number of years. And, too, a certain idealism must pervade the activities of those engaged in the work. After all is said and done, the officials can only come in as outsiders. The real difficulty is that the factors of supervision, namely collection, distribution, book-keeping and remittance are so idealistic that men without a stimulus behind them are not capable of attending to them with an exalted sense of duty. Periodical preaching in a pontifical manner does good neither to the body nor to the soul, much less to business and book-keeping. The fact of coin being behind the duties ought to serve as a sort of healthy stimulant to the central banks in the discharge of such duties. I am not therefore convinced that the departmental agency has any claim whatever to be preferred to the central banks in the matter of safeguarding the financial interests of the movement.

A word as to what I conceive to be the true place of the central bank in the movement must be said before I conclude. The time has arrived for co-operators to come to definite conclusions on the matter, for future lines of development largely depend upon them. If, as the King Committee who reported on the working of the movement in the Central Provinces said " *The Central Bank is in reality only a surety or intermediary taking commission for its services* " in attracting money from depositors and passing it on to the societies, let it be made clear once for all. The depositors and investors of money in the central banks will then know where they are and where to look for the safety of their money. If, on the other hand, it has any responsibility for the financial stability and soundness of the village societies which are almost exclusively financed

by it, then do not make it dependent, for safeguarding the financial interests of the movement, upon some one else to the extent of depriving it of the power to step in, even when the agencies on whom it is asked to depend for such safeguard fail to come to its rescue. The position of the department in this matter is illogical in theory and dangerous in practice. Mr. Wolff is often quoted by those who advocate the complete divorce of supervision from finance. In my opinion, they misread Mr. Wolff. In his scheme, the attraction of money, the watching over its employment, the enforcement of its recovery, and the employment of idle balance are done and ought to be done by the society itself. His central bank is merely a balancing centre and a clearing house for the societies. What use is it then, may I ask, to seek to apply Mr. Wolff's theories to conditions which are diametrically opposed to his fundamental assumptions? A dispassionate study of the history of the development of central banks in this Presidency shows that besides attracting local capital, they were also expected to actively supervise the societies, to watch if their loans were safe. The theory which prevailed during the evolution of these banks seems to have been that, in any scheme of supervision, the existence of financial community of interest between the supervising agency and the supervised bodies should be deemed essential. In the realization of this principle in co-operative finance and administration, it was intended that each central bank should undertake the supervision of societies by maintaining a special staff. In the above statement of the central banks' development, I have in effect quoted the words of a note circulated by the Department to the Committee on the subject. The later development of the local supervising unions and the final acceptance by co-operators of the principle that "co-operative practice as well as co-operative convenience pointed to the local supervising union as the body which was best capable of conducting supervision at close quarters" no doubt justified, nay, necessitated, a certain departure from the original plan on which the central banks were developed. But no principle or practice can be urged to carry that departure to the extent of denying to the central bank even an ultimate and residual power to safeguard its financial interests. Let it not be forgotten that in reality, the debtor societies and the creditor bank do not stand in the relation of defaulter and critic, but are organizations whose interests are indissolubly bound up, as those of men moved to a common purpose and fellow pilgrims in search of a common end.

II. Publication of Evidence.—The decision of the Committee not to publish the evidence, written and oral, is in my opinion very unfortunate. The benefits of an important enquiry conducted at the expense of much public money and time, will, to my mind, be greatly lost to the people if they are supplied merely with a report,

without the materials on which it is supposed to be based. By their very nature, some of the problems under investigation were either of an acutely controversial character or were capable of more than one solution. The evidence on them was in consequence bound to be, and was as a matter of fact, conflicting. Nevertheless, within the limits that the Committee set to its report, even an attempt could not be made to summarize the conflicting views or the effect of the evidence adduced in support of them in relation to any such problem. Co-operators are not likely to accept the recommendations of the Committee as the last word on any one subject on which they bear. In these circumstances, I feel that all those who are interested in subjecting the report to a careful examination will be placed under a serious handicap by reason of the evidence being made wholly inaccessible to them. I hope the public may still be able to persuade the Local Government to publish the evidence, notwithstanding the recommendations of the majority of the Committee to the contrary. Even after this report becomes out of date, as it is bound to in a decade or so, the evidence now collected will still be a useful and interesting record of considered co-operative opinion and may furnish valuable materials for a future enquiry.

I am in substantial agreement with all the other conclusions of the majority of the Committee.

23*rd January* 1928. V. RAMADAS PANTULU.

Enclosure.

Statement showing distribution of share capital in central banks between individuals and co-operative societies as on 30th June 1927.

Serial number and name of the bank.	Individuals.		Societies.		Total paid-up share capital.
	Number.	Amount paid up.	Number.	Amount paid up.	
		RS.		RS.	RS.
1. Aska	12	1,450	205	53,864	55,314
2. Berhampore ..	65	16,100	255	19,484	35,584
3. Vizianagram ..	58	38,900	387	41,825	80,725
4. Cocanada ..	118	24,600	128	46,200	70,800
5. Rajahmundry ..	30	8,300	41	7,950	16,250
6. Ramachandra-puram.	104	20,260	108	73,650	93,910
7. Amalapuram ..	39	11,400	105	76,650	88,050
8. Ellore	43	18,800	182	68,440	87,240
9. Masulipatam ..	152	56,900	379	1,15,532	1,72,432
10 Bezwada ..	31	21,300	139	33,886	55,186
11. Guntur	116	24,900	325	1,41,117	1,66,017
12. Nellore	66	23,800	343	1,00,046	1,23,846
13. Kurnool ..	73	12,030	238	76,914	88,944
14. Hospet	131	19,475	247	1,31,951	1,51,426
15. Anantapur ..	118	40,240	429	1,68,286	2,08,526
16. Cuddapah ..	54	15,620	166	47,600	63,220
17. Chittoor ..	76	34,056	272	1,10,961	1,45,017
18. Salem	100	80,000	418	97,917	1,77,917
19. Coimbatore ..	181	1,17,890	544	1,13,488	2,31,378
20. Malabar ..	146	47,734	477	58,499	1,06,233
21. South Kanara ..	252	73,530	418	85,102	1,58,632
22. Conjeeveram ..	90	1,00,000	716	2,50,746	3,50,746
23. South Arcot ..	112	47,292	599	2,34,819	2,82,111
24. Kumbakonam ..	123	49,440	307	65,739	1,15,179
25. Tanjore.. ..	213	73,045	243	65,110	1,38,155
26. Trichinopoly ..	95	1,00,000	406	71,361	1,71,361
27. Madura.. ..	99	75,000	494	1,27,873	2,02,873
28. Srivilliputtur ..	76	23,710	185	65,245	88,955
29. Tinnevelly ..	121	50,000	516	1,29,705	1,79,705
30. Vellore	79	98,550	647	2,77,162	3,75,712
31. Christian C.B. ..	134	93,941	1,059	57,196	1,51,137
Total ..	3,107	14,18,263	10,978	30,13,318	44,31,581

Minute of Dissent by Rao Bahadur T. A. Ramalingam Chettiar.

I have to dissent on a few matters including what the other members of the Committee consider the most important of all their proposals. At the outset I ought to refer to two features of the report. The problems we had to tackle are dealt with more from a commercial standpoint rather than the co-operative. While I agree that the co-operative institutions should be managed on business lines, the special features of these with reference to the purpose for which they are organized and the co-operative method that is, or should be, followed are not kept in view. The second feature is that past experience and the object to be aimed at have not received the same attention as *a priori* reasoning in several matters.

1. Division of agricultural loans into short and long-term loans: my colleagues consider this the most important of all their proposals and say that the failure to distinguish between them is the most unsatisfactory feature of the co-operative movement at the present time. I do not agree.

They propose a division which has reference only to the time of payment, viz., between those payable after the next harvest and those payable in a number of years. The purpose of the loan is not taken into consideration. They have to admit that where the division is made, as in the Central Provinces and Bengal, emphasis is laid on the purpose of the loans They also admit that even though the Central Provinces Committee, of which one of us who laid great emphasis on this point was a member, recommended the division and it was accepted by the Government, it does not appear to have been adopted in practice.

Purposes like the purchase of cattle for ploughing and drawing water, deepening of the well, and the purchase of costly manure are as much part of the cultivation expenses as any others. These are wanted very urgently in many cases. Delay in supplying the funds necessary for these will have even more serious consequences than the delay in supplying money for other cultivation expenses. These have to be paid for out of the harvest as much as other cultivation expenses, but the payment in these cases will have to be made from a number of harvests and not from one harvest. The loans given for meeting these cultivation expenses are differentiated from the short-term loans proposed by my colleagues.

My colleagues do not want the division for merely statistical purposes. They complain that " the financial and economic implications and benefits of such a division do not however seem to have

been emphasized or kept in view by the department or by any of the co-operative organizations ". What is at the back of their mind is an assumption that in the past short-term loans have been sacrificed to favour long-term loans. There is no ground for this assumption. The evidence is unanimous that no short-term application which was otherwise satisfactory has been turned down. As a matter of fact there is more than enough money in the movement to meet all the present requirements, and the problem is to find outlets for the very large balances with the central banks. The only complaint we have heard in some places is that on account of the delay in sanctioning loans, the loans are not granted in time to meet the needs. To meet this the system of forecasts is suggested and I entirely agree that this will facilitate the business in the societies. I will go further and say that these forecasts should be prepared for all the loans which can be foreseen and not only for the short-term loans. Prompt sanctioning and disbursement of loans is necessary in all cases and I do not see why, if a need can be foreseen, it should not be included in the forecast rather than to wait until it actually arose and then pass through all the process which *ex hypothesi* involves delay and trouble.

The second assumption made by my colleagues is that there is some special efficacy in meeting the short-term necessities of members. The outside money-lender does not make any difference between short-term loans and long-term loans except when immovable properties are mortgaged. It may be remarked that the professional money-lender fights shy of mortgages of immovable property and almost always lends on pro-notes. So unless all the needs of the ryot are met he will have to go to the money-lender and be under his control. The purpose of the loan and the time of re-payment have nothing to do with the terms imposed by the money-lender. They depend upon the time when the loan is required, the credit of the borrower, and the urgency of his requirements. Once the ryot borrows from the money-lender he has to subject himself to all the conditions regarding the sale of the produce through such money-lender wherever that practice exists. So differentiating between the short-term loan and the long-term loan and taking special steps to grant the short-term loans alone will not save the ryot.

The main object of my colleagues is to utilize this differentiation for the purpose of restricting the loan of money obtained as fixed deposit for a year or less and money obtained as overdraft from the Imperial Bank or the Madras Central Urban Bank only to these short-term loans. This is neither necessary nor desirable. Evidence is unanimous that, though fixed deposits are made for one year, the major portion of them are always renewed. New deposits are always coming in to take the place of the old ones. Even the most conservative witnesses have said that no risk will be run if 50 per cent of

the deposits for one year and less are utilized for long-term loans. After all the loans for cultivation expenses amounted in the last year only to about to one-sixth of the total amount given as loans. As a larger proportion of the amount loaned in previous years for short-terms would have been repaid than that loaned for long-term periods, since the latter is paid in instalments, the proportion of the short-term loans in the total outstanding loans will be much less than one-sixth. To concentrate attention on short-term loans and make or suggest arrangements which are likely to affect the other loans is not good policy in the interest of the movement. I fear the needs of our ryots and the history of the movement in our Presidency are not taken into consideration in this suggestion of my colleagues. The conditions of other Presidencies are not always a safe guide in such matters. The adoption of the suggestions of my colleagues would spell a great restriction in the utility of the movement, and the withdrawal of facilities which have been provided for with great difficulty and labour of so many years by enthusiastic and capable workers, both official and non-official.

The system of giving short-term loans only is being tried in Ganjam and Vizagapatam districts. Wherever we went in those districts the people complained that their needs were not all met and that unless all their needs are met they will not be benefited much. It was said that the dormant state of many of the societies was due to the fact that only short-term loans were given and people were not satisfied with them. I do not believe that anybody will seriously contend that the movement is specially good in these districts. My colleagues seem to think that if only short-term loans are given the overdues will be less. The example of North Arcot where the short-term loans were encouraged would show that the period for which a loan is given has nothing to do with overdues. We did not visit Tinnevelly; so I am not in a position to say how the movement is working in that district. In Godavari, we have a number of young men who devote their life for the betterment of their fellowmen. With such men any movement will succeed anywhere. I do not think the good working of the movement in that district has anything to do with the fact that short-term loans are given largely in that district. It should also be borne in mind that in delta districts there will be a large demand for short-term loans for cultivation expenses.

I do not think it is advisable to impose on the rural societies the keeping of any system of complicated accounts. Many societies are not able to keep the accounts which are prescribed at present and they require outside help for the purpose. They have very few transactions and it does not seem to be necessary that they should keep two separate sets of books or pro-notes. They are even

now sending separate applications for loans they want for different periods, and the purposes for which the loans are wanted are always given in the application forms. The central bank has already got information as to the purpose and the periods for which the loans are wanted. If considered desirable, the central bank may make arrangements to show the short-term and long-term loans separately. I do not think that differentiation of the short-term deposits and the long-term deposits will be a guide to base any action on them. As I have said, the evidence is practically unanimous that most of the deposits are renewed. So they are for a year or less only in name. The practice and experience of commercial banks will not be a safe guide in dealing with co-operative organizations whose working is entirely different. It is often forgotten that there is a lot of speculation in the working of commercial banks, whereas the co-operative organization depends ultimately on the unlimited liability of the members in the primary societies, and the maximum borrowing power is fixed at one-eighth of the net assets of the members. In some of the remarks made by my colleagues they seem to suggest doubts about the sufficiency of this ultimate security, especially when they refer to the withdrawal of members and the alienation of their properties. They forget that in a village these things will be known to the other members at once, and they will take prompt measures to stop them, as otherwise they will themselves suffer. I have not heard of a single society which had to suffer by such withdrawals or alienations. When the maximum borrowing power is fixed so low as one-eighth of the net assets, there is ample margin for all unexpected happenings and many of the societies do not borrow up to this maximum. Under these circumstances, the application of the precautions that are necessary in commercial banks is not necessary in the co-operative movement and mere *a priori* reasoning should be qualified by facts of experience.

If special facilities are given for short-term loans the only result will be that the money needed really for long-term purposes will be included in the applications for short-term loans by manipulating the purposes to be mentioned in the application. The result of this will be that when the time comes for repayment, the borrower will have to ask for extension for a part or whole of the debt. If the extension is not given overdues will increase. So the division will only result in showing real long-term loans as short-term loans.

If the loans are really taken for a year or two there is no necessity for registering the bond or the pro-note. Where extension is given beyond three years, a proper acknowledgment will have to be obtained or a fresh pro-note taken. All pro-notes for three years and more may be asked to be registered. The fact that at present short-term pro-notes are also registered unnecessarily is no argument for a

division. The commercial banks are prepared to negotiate negotiable securities which mature within six months. I understand it is proposed to ask for the extension of the period to one year. This does not mean that the pro-note itself should at its inception be repayable in six months or one year. All pro-notes which mature within six months or a year of the time when money is wanted can be negotiated, irrespective of the time that has passed since the pro-note was executed. I take it that the negotiation of pro-notes is only a supplementary method of obtaining money, and not the main source for it. In any case the facility for negotiation of the pronote should not be made the controlling factor in working the co-operative movement.

On the whole the suggestions made by my colleagues in this matter are fraught with serious consequences to the future of the movement in this Presidency and I will therefore strongly recommend that they should not be accepted.

2. While we generally did not go into minute details of things to be done at a future date and restricted ourselves to recommendations of a general nature in such cases, in some matters details were sought to be embodied. One such case was the details of the enquiry to be held when reconsidering the question of the retention or elimination of the individual shareholders in the central banks. As we have not enquired into the details of the enquiry, or sufficiently considered the matter, I cannot subscribe to the details mentioned in the report.

3. In the Madras Central Urban Bank the question of the representation of individuals on the board of management has, we were told, recently been considered and settled. There seems to have been a difference of opinion in the bank and one view has secured the majority. We were first not inclined to say anything about it. But when the final draft of our report was considered one of the members suggested that the view that was worsted at the bank meeting should be supported by the Committee in their report. I thought this was unfair as the other side was not heard and we had at the previous meetings taken a different view and we were only passing the final draft, embodying the conclusions come to earlier. But my colleagues took a different view. Considering the financial interest of the individuals, they hold shares to the value of Rs. 18,400 as against Rs. 5,77,370 worth of shares held by central banks and societies, and as the provision made of five members was sufficient to bring in the outsiders wanted to give strength to the bank and the movement, and as most of the representatives of the central banks were themselves individual shareholders of those banks, I thought it was not necessary to

recommend any change in the constitution which was framed only recently. I do not feel that any case has been made out for increasing the representation of the individual shareholders.

4. We have recommended a large addition to the Government audit staff. We have also recommended a large addition to the staff of supervisors employed under non-official agencies. We have made recommendations for the proper training of both Government and non-Government staff. We contemplate the work of supervision to be undertaken and efficiently done by the non-official organizations mainly through their paid staff. We have also recommended the employment of a staff of three inspectors in each district for administrative work until the unions and federations perform the work efficiently. When and where they work efficiently the staff can be reduced by one inspector. We have made a recommendation to appoint an officer to investigate the possibility of reducing the number of returns, reducing and simplifying the registers and other records kept, and to consider what powers now exercised by the Registrar can be delegated to the District Officer. We have recommended the appointment of better qualified and more experienced officers as District Officers and the deletion of the intermediate office of the Deputy Registrar for a group of districts. When these recommendations are accepted I contemplate the work in the District offices will be very considerably reduced. I do not think there will be any necessity for the appointment of a highly paid personal assistant to the District Officer. In case it is considered desirable to place the work of audit in the hands of the assistant, it will be quite ample if this assistant is appointed in place of the present manager or head clerk who is a senior inspector. The officers have always got a tendency to ask for more staff and when the staff is sanctioned it will somehow find work to do. Before any staff is sanctioned, the necessity for it will have to be very carefully scrutinized. I fear the appointment of a personal assistant will lead to the appointment of some clerks and peons under him specially. So it is better to call him, if he is to be appointed, an office manager and he may be asked specially to keep the correspondence relating to audit in his personal charge. More than that seems to me to be unnecessary.

23rd January 1928. T. A. Ramalingam.

NOTE BY MR. TOWNSEND.

I agree with all that is said in the report, save the proposal regarding fluid resources, on which two of my colleagues and I have written a minute of dissent. In this note I wish to amplify some of the contents of the report, and to add a little fresh matter.

In paragraph 24 a comparison is made between the Government expenditure on the co-operative movement, per member of all co-operative organizations, in Madras and in the other major provinces. It may be argued that a comparison of the cost per member alone is insufficient, and that other important figures showing the size of the movement in each province should also have been taken into consideration. We tried in vain to do so; unfortunately the statistics published by each province are in many cases compiled on different methods of calculation, and we could find no other method of comparison than that we adopted. Similar difficulties were encountered in dealing with reserve funds (paragraph 26) and over-dues in primary societies (paragraph 31). It is particularly unfortunate that no exact comparison between the position in Madras and in other provinces is possible in the latter very important matter.

In paragraph 29 reference is made to "the sudden withdrawal, without due notice, of the department from supervision." The words are not very happy, but, as they are commonly used, I let them pass. What is really intended to convey is that, when Government practically abandoned supervision to non-officials a few years ago, with the full consent of the latter, no steps were taken, either by Government or non-officials, to satisfy themselves that the latter were adequately equipped, whether in knowledge, financial resources, or staff to undertake that supervision. In the same paragraph we say that the danger resulting from the formation of societies without proper enquiry or preparation must be avoided in future. I direct particular attention to the remark. Much of the present unsatisfactory state of affairs is due to the formation of only too many societies in recent years without adequate preparation: many of the members joining such societies had not the least idea of what co-operation meant, what the term unlimited liability involved, or even the source of the money they borrowed. I consider that, while the formation of new societies should not absolutely cease for the present, the efforts of all concerned, whether officials or non-officials, should for the present be directed far more to rectification, or, if need be, the liquidation of many of the existing societies, than to the formation of new societies.

Our recommendations on the matter of non-credit work will be found in paragraphs 34 to 39. In this connexion I find that the Bengal Co-operative Department recently employed a business man for one year to assist in the development of sale societies generally, and the Registrar in Bengal tells me that the appointment was amply justified. I wished that our report should contain a definite recommendation that similar action should be taken in Madras, but my colleagues were not convinced of its necessity. I still think the proposal good, and recommend it to Government for consideration. The appointment would be for only one year, and therefore not expensive.

Our proposal in paragraph 42, that Government should for five years guarantee the interest on the debentures issued by the central land mortgage bank, will be rightly subjected to close examination and criticism. But I wish to point out that this is already being done in at least one other province of India. Unless some such action is taken, I see but little possibility of the central land mortgage bank selling its debentures to anything like the extent required, if sufficient long-term money is to be raised to extricate an appreciable proportion of the cultivators of the Presidency from their burden of prior debts.

When dealing with the question of Government staff (paragraph 45) we considered the desirability of appointing, as in the Punjab, a banking advisor to the Registrar. We decided however against the proposal, mainly on grounds of expense. But another proposal in this connection was put forward, which would involve practically no expenditure. It did not meet with my colleagues' approval, but I still recommend it for consideration by Government: the amount of money locked up in the co-operative movement in the Presidency is now very large. The proposal is that Government arrange to have at their disposal the honorary services of a banking expert on financial matters. If the gentleman once selected be satisfactory, he should not be changed without adequate cause, wherever he be posted in the Presidency. There are, I am confident, many bankers in the Presidency interested in co-operative work, who would accept the post, and willingly offer advice on financial problems submitted to them from time to time by the Registrar. I do not think that the management of his bank would object to the gentleman selected undertaking this work, which would be done by correspondence.

In the same paragraph we recommend, inter alia, the appointment of three inspectors per district for work other than audit and non-credit work. Of those one would be employed on liquidation work, and the remaining two on ordinary administrative work. For the latter work, I personally prefer three to two. However much unions and federations are strengthened as we recommend, and supervision

entrusted to them, I think the Registrar will for some years to come find ample work for three administrative inspectors per district. As a minor point, the Registrar should have full power to post his inspectors, whether employed on audit, liquidation, non-credit, or ordinary administrative work, wherever he chooses within the Presidency, so long as the scale sanctioned for it as a whole is not exceeded. Thus he may find it desirable to concentrate four or even six administrative inspectors in one backward district, cutting down the staff in good districts proportionately.

Where we make no specific recommendations on the matter of staff, our intention was that all the staff not mentioned should continue as at present: e.g., the inspectors employed on non-credit work should remain. I attach particular importance to the continuation of the appointment of Joint Registrar.

The burning question as to whether supervision generally should be entrusted to central banks or federations—one of the most important questions we had to consider—gave us much thought. Save on one aspect of the case we fortunately arrived at a unanimous conclusion in the matter: see paragraph 44. So important is the conclusion, I reproduce it:—

> Audit, inspection, and supervision should be clearly defined and distinguished. Audit should remain with Government. Many persons invest their money in the movement relying on the Government audit. Inspection should be not only the right, but the duty of the banks: but it should carry with it no power of actually putting right defects in primary societies brought to light at inspection. That power is part of supervision, and should vest in the union and the federation concerned. A bank should therefore ask the union or federation to rectify specific defects in the working of specific primary societies. Should the union or federation fail to do so, the bank should address the Registrar in the matter. The Registrar when addressed by the bank, could, if he desired, ask the bank itself to rectify the defects: but he is of course under no obligation to do so.

I consider that this solution will work satisfactorily, if the incomes of unions or federations are increased, and the banks given representation on the federations, as we recommend. I sincerely trust that all concerned will make every effort that this happy result may follow, and that the unfortunate feeling in the matter, in some cases bitter, and in a few cases personal, that at present exists, will rapidly subside. Mr. Ramadas Pantulu is, I understand, writing a minute of dissent on some of the points just mentioned.

That supervision should not be entrusted to banks, I personally have no doubt whatever. In most provinces of India supervision by

banks has not been successful. The present controversy on the question in Madras is largely due, I consider, to the fact, which we have tried to bring out in paragraph 4, that some banks, at any rate, were brought into existence with the definite object, not only of financing, but also of supervising, affiliated societies. But it is important to remember that, when these banks first appeared, federations had not been thought of. With two of my colleagues I examined in some little detail the rectification of bad societies which had been carried out on a fairly large scale by one central bank: I was not favourably impressed by it. The handing over of supervision to banks would, I consider, undoubtedly result in the immediate extinction of the federations, and in a lapse into suspended animation, if not worse, of many unions.

In our recommendations on supervision fund in paragraph 44 we urge the necessity of Government assisting backward districts by making a contribution to the supervision fund. I attach great importance to this. No federation can do any useful work without adequate funds, and much of the criticism at present levelled against the federation as a useless body, the " fifth wheel to the coach ", and the like, falls to the ground when it is remembered (i) that federations have only been in existence a very short time, and (ii) have been hampered, in most cases, by the inadequacy of the funds at their disposal. I do not however visualize the necessity of Government subsidizing federations for ever. Probably an annual subsidy of Rs. 12,000, in all, for the first five years, and then a decreasing amount for the next five years, should be sufficient. Much depends on the progress made in the interval.

I find that in paragraph 50, dealing with arbitration, liquidation and execution, we omitted to mention that in one district the Collector gets a quarterly statement from his Tahsildars showing the progress made in the execution of decrees sent to them for the recovery of " co-operative dues". His action has resulted in far more attention being paid to this matter by Tahsildars than in most districts. I recommend it for general adoption.

To the question of education and training in co-operative principles of all concerned, whether officials or non-officials, which are dealt with in paragraph 51, too much importance cannot be attached. It is impossible for the co-operative movement to flourish, unless all concerned, down to the most ignorant and most recently joined member of a village society in a backward district, know at least some of the elementary principles of co-operation. And it is generally agreed among co-operators all over India that for such education and training, however much the co-operative movement generally be " de-officialized ", Government must be to a great extent responsible.

I regret—see paragraph 54—our inability to frame an accurate estimate of the cost of our proposals. Some papers on the matter however have been given to the Registrar, which should assist him in doing so.

As a minor point, I recommend that Government examine the possibility of instituting a permanent Board of Economic Enquiry, as in the Punjab. Many enquiries into specific matters connected with the economic life of the Presidency are now made from time to time by various bodies or individuals, but no permanent organization exists to supervise those enquiries generally. Such an organization would be provided in a Board of Economic Enquiry.

Finally I desire to apologize personally for the disconnected and ill-arranged character of much of the report: for this, excuse may perhaps be found in the fact that the time at our disposal was limited. The paper is also unduly long : we had not sufficient time to write a short report.

C. A. H. Townsend,

25*th January* 1928. *President, Committee on Co-operation.*

Supplementary Note by Mr. Paul on Paragraph 39.

Suggestion of District Development Boards.

I wish to go somewhat further than my colleagues in making a suggestion for rendering the work of the 'nation-building departments' more effectively co-ordinated. I do so because practically every non-official witness in every district desired much improvement in the present measure of co-ordination. My own experience as a rural worker and also as a farmer accords with the same view. Moreover I have had the opportunity of studying the method of co-ordination adopted in some foreign countries.

What I am going to suggest is largely based upon what I have observed as the duties that are ordinarily performed by what are called County Agents in America. In our country also a start has been made in this line. I refer to what Mr. F. L. Brayne, I.C.S., Deputy Commissioner of Gurgaon district in the Punjab, has begun to do in his area. He has started a Rural Community Council, and on it he has laid the responsibility for a comprehensive service to the villager along something like fifteen different lines of public utility service. The principle on which he has based his organization may be best stated in his own words:

"Every department of Government engaged in a village work must work hand in hand with each other, with the district and the district authorities, if we are ever going to achieve any really big results. Government has the money and the technical knowledge, the District Board and the local authorities have the local knowledge and experience and are in daily touch with the villagers and can command their good will.

It is no use for any one department or authority setting out by itself to uplift the villages. All must work together".

Our Committee itself has found it necessary to indicate one definite line of co-ordination. I refer to paragraph 51. The Committee first recommended motor vans to the Co-operative Department for propaganda work. Then when it learnt that the Agricultural Department had a similar project under consideration, it immediately felt how valuable it will be if the Co-operative Department did not have a separate fleet but co-ordinated with the Agricultural Department in the matter. The recommendation was not merely for economy, but much more so for efficiency. Similarly our Committee found it necessary to recommend importation of experts from the sister departments of Agriculture and Industry, for attention to certain large developments in the co-operative movement. Also our Committee has gone

so far as to recommend that graduates in agriculture be recruited for co-operation work among depressed class people, who need so much of foundation building in their economic life before they can at all provide material for the ordinary co-operative movement. Therefore the suggestion that I am going to make is only in the nature of carrying to a further stage the ideas which have been working in the minds of many people. The fact is, there are now several Government departments working laboriously and faithfully each in its own way for the uplift of rural India. Human nature is such, and generally speaking the organization of official routine is so relentless, that there is not that human co-ordination which does obviously seem to the outsider to be demanded for reasons of greater efficiency.

The Committee has recommended occasional conferences. To my mind a mere suggestion of a conference is not likely to go very far. The duty is not located on any one in particular to call the conference, there is no responsibility to report the benefits of such conference, nor is there any finance provided for making the conferences frequent or effective if they prove to be valuable. An occasional conference will be good, but very far from effective in achieving that intimate co-ordination which is necessary for helping the present practical needs of the farmer. The farmer's problems do not arise in isolated compartments; they arise as a complicated whole. Their solution is seldom effective when attended to by isolated agencies. Where the man is intelligent enough he is able to co-ordinate for himself the services of various departments in his own way, but the average Indian ryot is unable to do so. When he has saved himself from Scylla it is not often that he escapes from Charybdis.

For these reasons I recommend that in each district a Development Board be constituted on somewhat the following lines:

District Development Board.

Objects.—(1) To co-ordinate the activities of the various departments of Government engaged in the district in regard to its economic improvement and general welfare:

(2) To encourage and assist all private enterprises in the district which have a similar objective.

Organization.—I. The Board shall be comprised of—

(1) The Deputy Director of Agriculture.
(2) The District Labour Officer.
(3) The District Health Officer.
(4) The District Educational Officer.
(5) President of the District Bank.

(6) President of the District Federation.
(7) Deputy Registrar of Co-operative Societies.
(8) President of the District Board.
(9) Co-opted members,—say three.

II. The Board shall elect its own President.

III. The Deputy Registrar shall be its Secretary, *ex officio*. He will report to the Registrar periodically on the working of the Board.

Duties.—(1) The Board shall meet once a quarter at least.

(2) At one of these meetings each department will present its own ideas as to the work for the coming year or season, and the discussion at the meeting should be aimed to make the work of each department co-ordinated with the needs and possibilities of the others.

(3) The other meetings will afford the opportunity for clearing up any problems of overlapping, and for adjusting any difficulties which may have arisen in the course of the year, as for instance by failure or delay of the monsoon, by floods, by unforeseen rise of the price of staple crops, etc.

(4) The Board will not employ its own officers. Nor is it an executive body. Its purpose is co-ordination through conference, and its powers are purely advisory.

(5) Where any private efforts are being made in the district toward 'development' such as 'Rural Reconstruction,' the Board should take such into full consideration as calling for special assistance in the course of the regular work of the department.

Finance.—The financial needs of the work of the Board should be very meagre. But whatever it is, it should be provided for in the regular budget of the Deputy Registrar.

23*rd January* 1928. K. T. PAUL.

APPENDIX I.

General Questionnaire.

1. Do you consider that the co-operative movement in this Presidency is advancing on sound lines, and is of increasing benefit to members of societies?

2. To what extent has it resulted in reduction of indebtedness, rate of interest charged by money-lenders, and civil litigation? In what other ways have material benefits resulted to the members of societies?

3. Have professional money-lenders been actively hostile to the movement and with what effect? Is the hostility, if any, increasing or the reverse?

4. Do you consider that the relations which exist between the Co-operative Department and other Departments of Government, such as the Departments of Revenue, Agriculture, Veterinary, etc., are satisfactory? If not, can you suggest any means whereby better co-operation with these departments will be ensured?

Finance.

5. Do you consider that the co-operative movement is in a sound financial condition?

6. The Registrar's last report shows that the central banks have more money on deposit than they can use. Can you suggest any means of remedying this state of affairs?

7. Are you of opinion that the policy of using fixed deposits for financing long-term loans is unsound, or if not, to what lengths do you think such a policy may be safely pursued?

8. Do delays occur in dealing with loan applications either in the primary society, the union or the district bank? To what are they due? How can they be avoided? Do they deter members from applying for short or long-term loans?

9. Are there serious delays or difficulties in obtaining and executing decrees against defaulters in respect of loans secured (*a*) by specific mortgage, (*b*) otherwise? If so, what remedy do you suggest?

10. Has the principle of unlimited liability been applied so that the whole liability on liquidation is laid unfairly upon a small minority of the members?

11. To what extent can the system of accounts be safely simplified? Is it desirable to eliminate pies from all accounts and transactions?

12. To what do you attribute the growth of overdues? What remedy do you suggest?

13. On whose recommendation should loans be granted by the financing banks?

Audit.

14. Audit is a statutory function of the Registrar. In what cases and to what extent should societies contribute towards the cost of audit?

15. Do you consider the present audit arrangements adequate ?

16. Do the present arrangements for audit allow shareholders, depositors, and financing and supervising bodies to obtain all the information they are entitled to regarding the position of the societies in which they are interested ?

Supervision.

17. Is the supervision of the work of co-operative societies at present adequate ?

18. Can the supervision of societies be handed over completely to non-official agencies, either now or at some future date ?

19. Do the supervising unions function efficiently ? If not, to what is the failure due, and to what extent should this supervision be supplemented, strengthened, or replaced by a further agency ?

20. Should central banks inspect and supervise societies financed by them, or should supervision remain with the unions combined in a federation ?

21. Is the present conception of the constitution and functions of a federation correct ? (The conception is that the federation consists of the representatives of all unions, the financing banks, and of co-opted members, to control and supplement, through a paid staff, the work of unions and to organize education and propaganda.)

22. Are the funds for supervision adequate ? If not, how should they be supplemented ?

23. What is your opinion of the present organization of supervising unions ? Does it result in tho concealment of irregularities ?

Instruction.

24. Is the staff employed by the department and by co-operative institutions adequately trained in co-operative principles and the practical working of societies ?

25. Does the pay now offered attract men of the right type with sufficiently high educational qualifications ?

26. What, if any, further provision is necessary for instructing and training co-operative workers and members of co-operative societies ?

Organization.

27. By what agency should new credit and non-credit societies be organized ? What qualifications should the organizers have, and what preliminary instructions should be given to the panchayatdars and members of a prospective society ?

28. Has the organization of new societies fallen off as the official staff has gradually confined itself more to audit ? If so, to what extent ?

29. Do you consider that the present arrangements for propaganda are suitable ? If not, what changes and development do you suggest in them ?

Madras Central Urban Bank and Central Banks.

30. Have you any criticisms to offer on the present constitution and management of central banks ?

31. What is your opinion as to the elimination of individual shareholders ?

32. What area or how many societies can a central bank most effectively serve ? On what consideration do you base your opinion ?

33. Is it desirable that banks should have paid secretaries with no seat on the directorate ?

34. Should the borrowings of primary societies be limited, as at present, by the amount of share capital held by them in central banks ? If not, what changes do you propose and for what reasons ?

35. To what extent is uniformity desirable and possible in the rates at which various central banks accept deposits ?

36. The Maclagan Committee was of opinion that the reserve funds of societies should not be deposited in central banks, but in Madras this recommendation was not accepted, and reserve funds of societies are held by the central banks. Do you consider the Madras system satisfactory ?

37. Is the practice of granting loans for ten years by central banks financially sound ?

38. Should central banks borrow for longer term loans by issue of debentures, or should this business be separately provided for by land mortgage banks ?

39. What proportion of a central bank's funds should be lent for long-term loans and for what periods ?

40. Is it possible or desirable for the central banks further to reduce their lending rate ?

41. Is the present standard for fluid resources adequate ?

Land Mortgage Banks.

42. Have you any suggestions or criticisms to offer regarding the system of land mortgage banks recently introduced in this Presidency ?

43. What is the maximum area over which a bank can effectively operate ?

44. How should the value of mortgages offered as security be assessed ? Should a paid staff be employed ? If so, who should pay it ?

45. Is it desirable to centralize the issue of debentures for all land mortgage banks ? What form should the central organization take ?

46. Can you suggest any improvement on the scheme which would tend to inspire confidence in the general public, and induce them to buy debentures more freely ?

47. Should the organization and supervision of land mortgage banks be entrusted to a special staff under the Registrar ?

Primary Credit Societies.

48. Do members understand the principles of co-operation and realize their responsibilities as members of an unlimited liability society ?

49. Do panchayatdars generally understand and discharge their responsibilities in the management of their societies ?

50. Do these societies secure to their members adequate provision for short-term loans? Do members still go to the local sowcar for small short-term loans? If so, what remedy do you suggest for this?

51. Do these societies make adequate provision for long-term loans?

52. Are loans properly granted in regard to amount and term, with due regard to the purpose of the loan, the repaying capacity of the member, and the most convenient season for repayments?

53. Is the bona fides of the purpose for which loans are demanded verified? Are loans always granted for useful purposes?

54. To what extent, if any, are benami loans given?

55. To what extent does the panchayat satisfy itself that the loan has been properly applied?

56. On what basis should the maximum borrowing power of the society and of members be fixed? By whom should it be fixed?

57. Is it desirable to pay honoraria to the Secretary or panchayatdars? If so, on what basis should it be paid?

Non-credit Societies.

58. Of what type of non-credit societies have you had experience?

59. What steps do you recommend to facilitate the development of non-credit societies of various types? Please state to what type of society you refer?

60. Is it desirable to have a separate branch of the official staff to deal with non-credit societies?

61. Are you acquainted with the working of any co-operative stores in the Presidency? If so, have you any criticisms to offer or suggestions to make regarding the work of such societies?

62. For what reasons were the purchase and sale societies for weavers unsuccessful, and what measures could be adopted to improve them?

63 To what extent, and in what direction, should credit societies undertake non-credit activities? Are any steps necessary to develop these activities?

64. How far is it possible and desirable to develop co-operative distribution, production, and sale societies?

APPENDIX II.

QUESTIONNAIRE ISSUED TO CENTRAL BANKS.

1. What is the number of societies affiliated to your bank?

2. How many of them are indebted to you? And, if so, to what amounts?

3. How many societies out of the total number of affiliated societies borrowed from your bank last year?

3. (a) How many of the societies affiliated to your bank have not borrowed from you at all, subsequent to obtaining the initial loan?

3. (b) How many of your affiliated societies have not borrowed for over two and three years respectively?

4. How many of your societies do you think are good, that is to say, are capable of managing their own affairs, without any outside supervision or instruction?

5. On what information do you base this opinion?

6. What reports do you think your bank is entitled to get, and from whom?

6. (a) What reports do you actually get about your societies, and from whom?

7. What use do you make of these reports?

8. Do you obtain copies of audit notes for your societies from the Assistant Registrar? Do you obtain them promptly, or with delay?

8. (a) Do you get copies of interim audit reports?

9. Have you any permanent record wherein the contents of these reports are tabulated for ready reference?

10. How far are these reports reliable?

11. Do your by-laws give you power of inspection?

12. Have you used it in any case? With what results?

13. Did you approve of the Bankers' Conference resolutions, No. 1, dated May 8th 1926, and No. VI, dated October 2nd 1926 (Rectification), and to what extent did you attempt to carry them out?

14. What are the principles on which you deal with loan applications? How many of your societies have revised their property statements during 1926-27? How many societies have sent copies of them to you? What steps do you think are necessary to see that every society carries out an annual revision of the property statement?

14. (a) What records do you generally consult in dealing with loan applications?

15. Who recommends loans?

16. Are there cases where the recommendations were not accepted? Can you state the reasons?

17. Are you satisfied that the recommendations have not gone wrong? Have you verified loan applications?

18. How do you discriminate between loan applications?

19. Have you any system whereby the working and affairs of societies are continuously watched?

20. What are the reasons for your increasing overdues?

21. How do you distinguish between legitimate overdues and wilful defaults?

21. (a) What steps do you take to see that the necessary extensions are granted to members of primary societies?

22. Have you any debt-collecting agency of your own? Have you, or have you not, felt any necessity for such an agency?

23. What is the amount of overdues to your bank from your societies? What is the amount of overdues of the members to the primary societies affiliated to you? Please explain the difference between the two amounts.

24. What proportion of the overdues to your bank are overdue for more than two years? What steps have you taken in the matter?

25. Have you asked for any enquiry under section 35 or 36 of the Co-operative Societies Act? With what result?

26. Have you any societies under liquidation? How are collections in such cases?

27. How much of the overdues of members are secured by mortgage? How much by sureties, and what is the proportion of each to the demand?

28. Are the terms of money-lenders in your district harsher for short term than long-term loans?

29. Do you consider it advisable to divide the short-term business of your bank from the long-term business, both as regards deposits and loans?

30. It has been stated that such a system would

(i) be financially safer,

(ii) educate the primary societies in business methods, and

(iii) assist them economically in placing more short-term loans at their disposal. By a short-term loan is meant a seasonable advance for crop purposes. Do you agree?

31. Do you think that a lower rate for short-term deposits and a higher rate for long-term deposits would encourage the latter?

APPENDIX III.

Resolution No. 20 of the Conference of Registrars held at Bombay in January 1926.

Classification of societies.—While it does not suggest that any attempt should be made to impose the system of classification of societies on Provinces or States which have not adopted and do not feel the need for such a system, the Conference is of opinion that where the system has been, or is to be, introduced some method should be followed whereby uniformity of classification will be secured. To attain this object the following tests should be applied :—

Class A.—Should receive no help from official or non-official staff, other than the annual audit. Such a society may be inspected, exhorted and encouraged ; new proposals for the development of its activities may be made, but an inspection should not be necessary in order to remedy any defects. It must in addition contain all the distinguishing marks of a B class society.

Class B.—Must maintain its own accounts through a local secretary, not a circle or itinerating secretary. It must prepare its own monthly or crop demand, make its own recoveries from debtors, apply when necessary for arbitration, conduct its own execution proceedings in court, and be generally in a sound and healthy condition. A society classed as B may, however, contain a certain number of defaulters, its accounts need not be faultless, and its co-operative spirit and education may be in some respects short of perfection.

Class D.—A bad society which will be cancelled and brought under liquidation, if it does not raise itself to class C within two years. No society should be classed as D so long as it is considered fit to receive a new loan on any terms whatever from its financing institution.

Class C.—All other societies.

APPENDIX IV.

LIST OF WITNESSES EXAMINED.

Madras.

H. M. Hood, Esq., I.C.S., Registrar of Co-operative Societies.
R. D Anstead, Esq., M.A., C.I.E., Director of Agriculture.
D. A. D. Aitchison, Esq., M.R.C.V.S., M.P.S., Veterinary Adviser to Government.
M.R.Ry. V. C. Rangaswami Ayyangar Avargal, B.A., Secretary, Madras Central Urban Bank.
,, R. A. Sivananda Mudaliyar Avargal, President, South Arcot District Co-operative Federation.
,, R. Srinivasa Ayyangar Avargal, B.A., B.L., M.L.C.
,, Diwan Bahadur R. Ramachandra Rao Avargal, C.S.I., Ex-Registrar of Co-operative Societies.
,, S. Krishnaswami Ayyangar Avargal, Secretary, Christian Co-operative Central Bank.
M. K. Dandekar, Esq., B.A., Principal, Government Institute of Commerce.
Sir Lallubhai Samaldas, *Kt.*, C.I.E., President of the Bombay Co-operative Union.
M.R.Ry. K. G. Sivaswami Avargal, B.A., Member, Servants of India Society.
,, R. Krishnaswami Ayyangar Avargal, B.A., B.L., President, South Arcot Central Bank.
,, A. Sivarama Menon Avargal, Representative of the Triplicane Co-operative Stores.
,, Rao Bahadur A. Vedachala Ayyar Avargal, retired Registrar of Co-operative Societies.
,, A. Parasurama Rao Avargal, B.A., B.L., M.L.C., Cuddapah.
,, Rao Sahib V. Venkata Achariyar Avargal, President, Conjeeveram Central Bank.
R. G. Grieve, Esq., M.A., Director of Public Instruction.
M.R.Ry. M. Ramakrishna Rao Avargal, Director, Nellore Central Bank.
,, Rao Bahadur M. K. Venkata Achariyar Avargal, retired Joint Registrar of C-operative Societies.
Khan Bahadur Muhammad Bazl-ul-lah Sahib Bahadur, C.I.E., O.B.E., Director of Industries.
S. H. Slater, Esq., C.M.G., C.I.E., I.C.S., Commissioner of Labour.
M.R.Ry. C. Viswanatha Rao Avargal, B.A., B.L., Secretary, Nellore Central Bank.
,, K. V. Raghava Acharya Avargal, B.A., B.L., President, Nellore Central Bank.
,, Rao Sahib T. Srinivasa Rao Avargal, Secretary, Provincial Co-operative Union.
,, V. Venkatasubbiah Avargal, B.A., Joint Secretary, Provincial Co-operative Union.
J. Gray, Esq., O.B.E., I.C.S., Ex-Registrar of Co-operative Societies.

Bellary.

M.R.Ry. R. Venkoba Rao Avargal, Ex-Secretary, Bellary District Federation.
" N. Narayana Rao Avargal, Director, Bellary Co-operative Union.
" A. D. Thandu Mudaliyar Avargal, Member of the Executive Committee, Hospet Central Bank.
" R. Nagan Gowda Avargal, M.L.C.
" C. Balaji Rao Avargal, President, Bellary Co-operative Union.
" V. Krishnama Chetti Avargal, B.A., B.L., High Court Vakil.
F. Sayers, Esq., District Superintendent of Police.
M.R.Ry. K. Krishnacharya Avargal, Secretary, Hospet Central Bank.
" G. Thimmappa Avargal.
" Rao Sahib J. Venkatesam Choudari Garu, B.A., Deputy Registrar of Co-operative Societies.

Anantapur.

M.R.Ry. J. Krishnamurthi Rao Avargal, Secretary, Cuddapah Central Bank.
" K. Gundu Rao Avargal, Director, Cuddapah Central Bank.
" V. Pichayya Pantulu, President, Cuddapah Central Bank
Rev. H. W. Whyte, President, Jammalamadugu Co-operative Union.
M.R.Ry. Thambuswami Pillai Avargal, President, Markapur Co-operative Union.
" G. Rameswara Rao Avargal, Director, Anantapur Central Bank.
" L. Gangadhara Sastri, Secretary, Anantapur District Federation.
" H. Shiva Rao Avargal, Secretary, Anantapur Central Bank.
" M. Narayana Rao Avargal, President, Anantapur Central Bank.
" C. Ranganatha Ayyangar Avargal, Secretary, Gooty Town Bank.
" Bhima Rao Pantulu.
" H. Narayana Rao Avargal, B.A., B.L., Director, Anantapur Central Bank.

Tanjore.

Syed Tajudin Sahib Bahadur, M.L.C.
M.R.Ry. C. A. Narayanaswami Ayyar Avargal, B.A., B.L., Secretary, Tanjore Co-operative Union.
" K. S. Srinivasa Ayyar Avargal, President, Tanjore Central Bank.
" V. R. Srinivasan Avargal, B.A., Secretary, Kumbakonam Central Bank.
" Rao Bahadur N. Krishnaswami Ayyangar Avargal, B.A., B.L., President, Kumbakonam Central Bank.
" Rao Sahib K. V. Thiruvenkata Mudaliyar Avargal, Secretary, Tiruvalur Co-operative Union.
" N. S. Kulandaiswami Pillai Avargal, Assistant Director of Agriculture.
" Rao Sahib A. Seturama Ayyar Avargal, Secretary, Tanjore District Co-operative Manure Society.

Madura.

M.R.Ry. G. Srinivasa Raghavachariyar Avargal, retired Assistant Registrar of Co-operative Societies, and Secretary, Madura-Ramnad District Federation.

„ Rao Sahib N. Ramaswami Ayyar Avargal, President, Madura-Ramnad Central Bank.

„ P. A. Subrahmanya Ayyar Avargal, Secretary, Tiruppattur Co-operative Union.

„ R. Ananda Rao Avargal, Secretary, Tiruthangal Co-operative Union.

„ S. P. Perumal Pillai Avargal, B.A., Deputy Registrar of Co-operative Societies.

„ N. P. Krishnaswami Ayyangar Avargal, President, Nanguneri Co-operative Union.

„ E. S. Sunda Avargal, B.A., B.L., President, Madura City Co-operative Union.

„ A. Srinivasa Achariyar Avargal, Secretary, Srivilliputtur Central Bank.

Trichinopoly.

M.R.Ry. Diwan Bahadur Sir T. Desika Achariyar Avargal, *Kt.*, B.A., B.L., President, Trichinopoly Central Bank.

„ T. Nataraja Pillai Avargal, Lalgudi.

„ L. N. Paramasivam Pillai Avargal, President, Trichinopoly District Federation.

„ S. Annadurai Ayyar Avargal, Secretary, Kulitalai Co-operative Union.

„ Rao Sahib O. N. Ramaswami Ayyar Avargal, M.A., Deputy Registrar of Co-operative Societies.

Coimbatore.

M.R.Ry. C. V. Venkataramana Ayyangar Avargal, B.A., B.L., M.L.C., Director, Coimbatore Central Bank.

„ T. S. Venkataramana Ayyar Avargal, Director, Coimbatore Central Bank.

„ Rao Bahadur T. S. Balakrishna Ayyar Avargal, President, Coimbatore Central Bank.

„ K. S. Ramaswami Gounder Avargal, Tiruppur.

„ Rao Sahib K. M. Chinna Rangayya Gounder Avargal, President, Kambliampatti Co-operative Union.

„ N. Subrahmanyam Avargal, Secretary, Coimbatore Central Bank.

„ J. N. Jayakaran Avargal, Y.M.C.A. rural centre, Ramanathapuram.

Calicut.

M.R.Ry. Rao Sahib M. V. Krishna Menon Avargal, Secretary, Malabar District Bank.

„ V. K. Menon Avargal.

„ R. Suryanarayana Avargal, Member, Servants of India Society.

„ E. Raman Menon Avargal, B.A., Headmaster, Government Fisheries Training Institute.

Calicut—cont.

M.R.Ry. Rao Bahadur T. M. Appu Nedungadi Avargal, Director of Nedungadi Bank.
„ Rao Sahib P. V. Gopalan Avargal, Honorary District Labour Officer.
„ Karunakara Menon Avargal, Assistant Director of Fisheries.

Mangalore.

M.R.Ry. M. Shiva Rao Avargal, Ex-Vice-President, South Kanara Central Bank.
„ M. Ananta Rao Avargal, B.A., B.L.
„ M. Giriappa Avargal, B.A., Deputy Registrar of Co-operative Societies.
„ N. Mangesha Rao Avargal, President, Mangalore Co-operative Printing Works.
„ R. W. Bhandarkar Avargal, B.A., B.L., Secretary, South Kanara District Council of Supervision.
„ C. Venugopal Rao Avargal, Secretary, South Kanara Central Bank.

Salem.

M.R.Ry. M. M. Masilamani Avargal, Vice-President, Salem Central Bank.
„ G. Paravasudevayya Avargal, President, Krishnagiri Urban Bank.
„ S. Bhuvaraha Murthi Achar Avargal, B.A., B.L., President, Atur Co-operative Union.
„ K. Sundararaja Ayyangar Avargal, Secretary, Salem District Federation.

Vellore.

M.R.Ry. Rao Sahib M. S. Seshachalam Ayyar Avargal, President, Tiruvannamalai Co-operative Union.
„ S. Srinivasa Ayyar Avargal, B.A., L.T., Secretary, Vellore Co-operative Building Society.
„ C. Venkataramana Ayyar Avargal, President, Chittoor Central Bank.
„ K. Raman Nayar Avargal, B.A., Deputy Registrar of Co-operative Societies.
„ Rao Sahib N. Krishnama Achariyar Avargal, B.A., B.L., Ex-President, North Arcot Central Bank.

R. D. Paul, Esq., M.A., District Labour Officer.

Cocanada.

M.R.Ry. P. Venkataramanayya Avargal, Secretary, Godavari District Central Bank.
„ R. Venkata Rao Avargal, B.A., Secretary, Konaseema Central Bank.
„ G. Lakshminarayana Avargal, Director, Peddapuram Co-operative Union.
„ N. Satyanarayana Avargal, Secretary, Godavari District Federation.

Cocanada—cont.

M.R.Ry. V. Venkataratnam Choudari Garu, M.L.C., Director, Ramachandrapuram Central Bank.
„ K. Chelapathi Rao Avargal, Secretary, Peddapuram Co-operative Union.

Vizagapatam.

M.R.Ry. V. S. Jagannatha Rao Avargal, Director, Vizagapatam Urban Bank.
„ C. Dharma Rao Avargal, M.A., L.T., Secretary, Ganjam District Central Banking Union.
Sriman Narasinga Padhi Mahasayo, Secretary, Russellkonda Co-operative Union.
Janab S. A. Allay Sahib Bahadur, President, Rambha Union.
Sriman Balakrishna Ratho Mahasayo, B.A., B.L., Secretary, Aska Central Bank.
M.R.Ry C. Bhaskara Rao Nayudu Avargal, B.A., Deputy Registrar of Co-operative Societies.

Vizianagram.

M.R.Ry. C. Subba Rao Avargal, Secretary, Vizagapatam District Central Bank.
„ M. Venkatarangiah Avargal, M.A., L.T., President, Vizagapatam District Central Bank.

Bezwada.

M.R.Ry. Rao Bahadur K. Nageswara Rao Avargal, B.A., retired Deputy Collector.
„ C. Rajagopala Acharya Avargal, B.A., B.L., President, Viziavada Central Bank.
„ D. Vishnu Rao Avargal, B.A., B.L., Secretary, Viziavada Central Bank.
„ N. Ranganatha Acharya Avargal, B.A., B.L., Deputy Registrar of Co-operative Societies.
„ G. Venkataratnam Avargal, President, Gudlavalleru Co-operative Union.
„ I. V L. Narasimha Acharya Avargal, Director, Kistna Co-operative Bank
„ G. Ramachandra Rao Avargal, Secretary, Andhra Sahakara Sammelanam.
Rev. B. Raymond Haaf, B.A., President, Tenali Depressed Classes Co-operative Union.
M.R.Ry. L. Ramakrishna Rao Avargal, B.A., B.L., President, Guntur District Central Bank
„ S. Venkateswara Rao Avargal, Director, Viziavada Central Bank.